

U.S. Plans New Idea 'On Arms'

It Wants to Test Inspection Before Signing a Treaty

By R. Jeffrey Smith

WASHINGTON — A proposal to seek practice inspections of Soviet and U.S. nuclear weapons before completion of a new treaty limiting strategic arms has emerged as the most surprising, and potentially important, result of three months of intensive study by the Bush administration.

The idea, expected to be approved by President George Bush in the next few days, is for both

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sides to practice inspection techniques that could be used to verify treaty compliance.

The administration has selected this approach, the officials said, in lieu of offering major U.S. initiatives on the provisions of the treaty when negotiations with the Soviets resume Monday in Geneva.

U.S. inspectors could, for example, peer inside the caps on Soviet strategic nuclear missiles to count the warheads or install a shock outside Soviet mobile-missile factories, officials said Saturday, and then draw on the experience during treaty-drafting sessions.

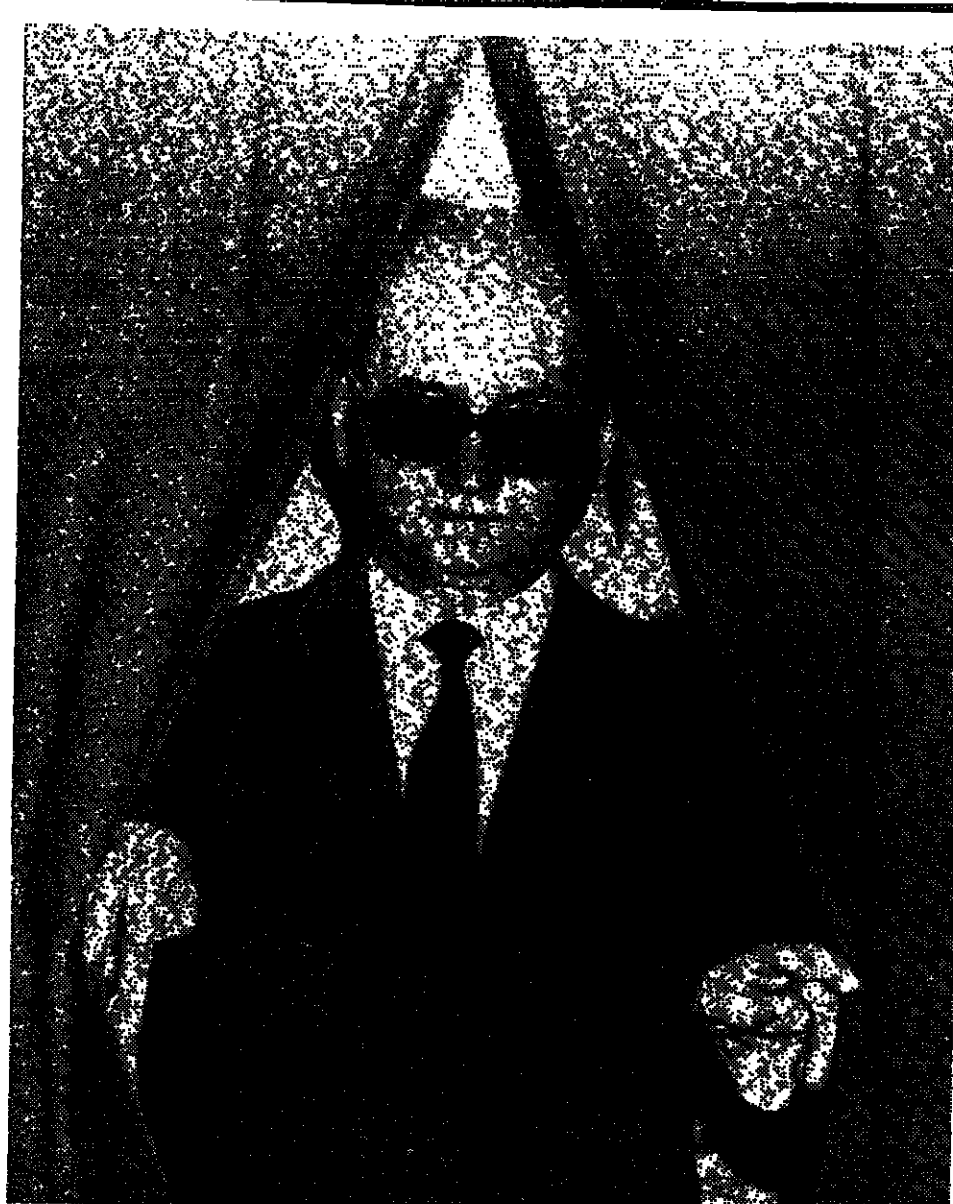
The plan appears to represent a major shift from the U.S. negotiating tactics that produced five other major arms accords, because it will likely call for intrusive visits to important weapons bases before either side could be certain that a treaty would be attained.

By placing this "verification" card before the "treaty" horse, the administration's plan seeks to challenge a historic assumption that such inspection rights must be won through hard negotiation, not traded as political favors.

Officials maintain that at the same time, the plan reflects a realistic appraisal of the dismal record of arms accords until the 1987 Intermediate-Range Nuclear Forces Treaty signed by President Ronald Reagan.

The unstified SALT-2 treaty governing strategic arms and the Threshold Test Ban Treaty governing nuclear tests founded in part because of Senate or executive branch concerns that Soviet com-

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General Wojciech Jaruzelski leaving a polling booth Sunday in Warsaw.

Poles Shun 2d Vote Round

New Humiliation for Communist Leadership Is Seen

By Jackson Diehl

Washington Post Service

WARSAW — Poland's Communist leadership appeared likely to suffer a new political humiliation Sunday as a second round of elections for parliament involving mostly official candidates drew a bare trickle of voters to the polls.

Although 303 of the 560 seats in the two-chamber parliament were to be decided in voting across the country, figures at midday suggested that the voter turnout could be by far the lowest ever recorded in postwar Poland.

The national election commission said only 8.5 percent of the

27 million eligible voters had cast ballots by noon.

This appeared due to the fact that only nine of the races contested Sunday involved opposition candidates. The rest were held to elect Communists and their allies to seats reserved for them by a pre-electoral agreement.

Candidates supported by Solidarity won 92 of 100 seats in the freely elected Senate and all but one of the 160 seats allowed for independent candidates in the Sejm in the first round of voting two weeks ago.

The opposition movement was favored Sunday to win all but one of the remaining Senate seats as well as the final Sejm slot,

which will give it a 35 percent minority bloc in the lower house and an effective veto over government actions through control of the Senate.

The pre-electoral agreement between the party and Solidarity was meant to ensure the party's control over the Sejm and the means to elect its own nominee to the powerful new post of president regardless of the election results.

However, the low turnout Sunday appeared likely to further weaken the practical authority of the Communist leadership under General Wojciech Jaruzelski at a time when it is facing

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Prime Minister Andreas Papandreu and his companion, Dimitra Liani, after voting on Sunday.

Mitsotakis Leads Greek Vote

Conservative Foe Takes Early Edge Over Papandreu

Compiled by Our Staff From Dispatches

ATHENS — Constantine Mitsotakis, leader of the opposition, took the early lead as voters decided Sunday whether to end eight years of rule by Prime Minister Andreas Papandreu.

Mr. Papandreu was in the unfamiliar role of underdog against his longtime conservative foe, who favors reduced government control of the economy and closer U.S. ties.

State television said that with 3.9 percent of the ballots counted, Mr. Mitsotakis's New Democracy party had 46.7 percent of the vote. Mr. Papandreu's Panhellenic Socialist Movement, known by the acronym PASOK, had 38 percent, and the Coal-

ition of Leftist and Progressive Forces had 11.7 percent.

At stake were the 300 seats in parliament. Definitive results were not expected until Monday.

After casting his ballot, Mr. Papandreu made a final appeal for re-election. "All the conquests of the people are in danger as well as our national independence," he said. Mr. Papandreu has accused the New Democrats of planning to dismantle Socialist welfare programs and of being susceptible to foreign influences.

The head of the tiny Greek Radical Movement, Antonis Tritsis, claimed Sunday night that there were no ballots representing his party in the general

election and European Parliament poll in scores of voting precincts. He said that he had sent protests to the Interior Ministry and to the European Community.

The Interior Ministry said that 75 percent of the country's 7.89 million voters cast ballots in the election. They chose from among 25 parties and 3,000 candidates. But only two, PASOK and the New Democrats, were given any chance to lead the next government.

If neither won a majority, Greece could face its first coalition or minority government since a return to democracy in

See GREECE, Page 4

Shift Left Is Likely In EC Vote

Projections Show A Socialist Edge In Parliament

By Joseph Fitchett

BONN — Leftist parties appeared to have won a majority in the European Parliament in voting Sunday to create an assembly that will steer the European Community toward economic integration by the end of 1992.

According to early results and preliminary computer projections about the makeup of the new 518-seat assembly, Socialists, Greens and other leftist parties were expected to control a majority with 270 seats.

The Socialist group in the parliament said late Sunday that it would be claiming the presidency of the Strasbourg-based assembly on the basis of gains made in the voting.

In the outgoing parliament, elected in 1984, coalitions of conservative parties could usually muster a majority.

In West Germany, Chancellor Helmut Kohl's coalition government lost ground but did better than had been predicted, with the Christian Democrats scoring just over 38 percent and outdistancing the opposition Social Democrats, who scored 36 percent, early projections showed.

This result seemed good enough to protect Mr. Kohl's position as party leader and chancellor.

West Germany's extreme rightist Republicans, who are hostile to the EC, made dramatic gains, emerging with an estimated 7.5 percent of the vote.

Voting in other countries of the 12-nation community produced the following initial results:

● In France, projections showed a list headed by former President Valéry Giscard d'Estaing leading with 29 percent. The governing Socialists came second with 23 percent, followed by 12 percent for the Greens, 11 for a centrist list led by Simone Veil, 11 for the extreme rightist National Front, and 8 for the Communists.

● In Spain, where the turnout of 54 percent was a record low, Prime Minister Felipe Gonzalez and his Socialist Party won 39.5 percent, holding their ground despite recent labor unrest that has cut into their popularity.

● In the Netherlands, the Christian Democrats of Prime Minister Ruud Lubbers collected two new seats, jumping from eight to 10, while the opposition Labor party unexpectedly slid from nine to eight seats.

● In Portugal, where the abstention rate exceeded 50 percent, the governing Social Democrats won 36.4 percent compared with 26.7 for the opposition Socialist Party, which achieved a four percent gain. Results in other EC countries

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A Major Setback for Japan-China Trade

By Patrick L. Smith

TOKYO — The crackdown by the Communist leaders in Beijing has dealt a major blow to China's most important economic and commercial relationship, Japanese executives and officials say, and presented foreign-policy planners here with the most difficult challenge they have faced this decade.

Although attention has focused in recent days on Japanese executives and technicians returning to operations in China, these sources

said, new political and economic uncertainties in China have already extinguished the substantial momentum in economic ties that Tokyo and Beijing had successfully fostered in recent years.

Investment in China by Japanese companies, an essential element in Beijing's modernization effort, will drop by 50 percent or more in the second half of this year, business leaders and private forecasters predicted. Before the recent crack-down on pro-democracy demonstrators, economists had said fixed

commitments were expected to double this year.

Trade between Japan and China, which grew 24 percent last year, is likely to suffer somewhat less, Japanese analysts said. But the maintenance of commercial links will depend on China's ability to avoid further supply disruptions and finance import purchases — both of which are factors open to question.

The degree to which the cooling of relations will impair China's progress, particularly in view of a readjustment process Beijing began

last fall, remains unclear. Some analysts contended that the relationship would not recover until Deng Xiaoping, China's paramount leader, passes from power, an occasion to which they now attach increased importance.

Japanese industrialists, many of whom are visibly confused by events in China, are faced with an unexpected dilemma. Based partly on new yen credits and an investment-guarantee treaty signed last

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China Tightens Rules to Go Abroad

Extra Step Makes Escape More Difficult for Dissidents

By John Burgess

Washington Post Service

BEIJING — The Chinese government announced new restrictions Sunday on foreign travel by its citizens, apparently in an effort to prevent hunted dissidents from escaping abroad.

The move came as Beijing reported the arrest of six more persons accused of involvement in the suppressed pro-democracy protests.

Beijing radio reported that all Chinese with documents enabling them to leave the country would have to obtain new ones. This would give the police a chance to re-evaluate the travelers.

Authorities have already an-

nounced border surveillance measures to apprehend people trying to escape. In addition, two prominent dissidents have taken refuge in the

In Hong Kong, even the optimists on the colony's return to China are looking for a haven. Page 5.

U.S. Embassy, apparently with the hope of leaving the country. Australian newspapers have reported the presence of one or more dissidents inside the Australian Embassy here.

Chinese television reported Sunday night that two workers, three students and an instructor had been picked up in a nationwide sweep that began after army troops crushed pro-democracy demon-

strations in Beijing two weeks ago, killing hundreds.

Shown undergoing interrogation, the two were accused of joining an independent labor union, directing roadblocks and shouting "counterrevolutionary" slogans.

The three students and instructor were not among the 21 campus leaders for whom wanted notices have been distributed, but television commentary depicted them as being important in the movement.

One of them, Liu Huo, a Beijing Medical University student, was accused of misappropriating donations worth about \$4,600, staying in a fancy hotel and eating and drinking lavishly.

[The total of confirmed arrests

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A soldier with a carnation fixed to his rifle standing guard Sunday in Tiananmen Square.

At the Very Heart of Matter: Hunting the Elusive Top Quark

By Barry James

International Herald Tribune

GENEVA — In one of the great scientific adventures of the century, researchers here are about to embark on a hunt for some of the most exotic substances in the universe — things like a missing quark and a Higgs boson.

Welcome to the world of particle physics, where huge and expensive machinery is being used to unlock the secrets of the almost infinitely small and evanescent.

Within a few weeks, scientists at CERN, the European Laboratory for Particle Physics, will put into operation the Large Electron-Positron Collider, or LEP, the

world's biggest scientific instrument and one of the biggest civil engineering projects ever completed in Europe.

For the first and last time before the experiments begin, the laboratory allowed journalists to visit the collider, where physicists from around the world — the Soviet Union as well as the United States — will join in the lifting of some of the mysteries of matter.

One of the important things they expect to find is a "top" quark that physicists believe to exist but for which there has never before been a powerful enough means of discovery. Five other quarks, mysterious particles at the very heart of

matter, have already been discovered at lower energy levels.

The \$660 million collider is housed in a 27-kilometer (17-mile) tunnel, most of it hidden deep under the lush green countryside of France.

Scientists say the machine, a mighty microscope rather than a telescope, will be capable of exploring the universe to within a minute fraction of a second from the start of time — .000000001 of a second, to put a figure on it.

"I believe what we are doing here is very cultural," said Emilio Picasso, director of the project. "There are a lot of technologi-

cal aspects, but the real motivation and the real achievement is of a cultural nature."

The collider is the culmination of a scientific and philosophical trend that began 2,400 years ago with Democritus, who said that "the first principles of the universe are atoms and empty space; everything else is merely thought to exist."

When the collider is running, scientists will strip negatively charged electrons out of the nuclei of hydrogen, and create their positively charged opposites, known as positrons. With the help of vast amounts of energy, some 4,700 powerful electromagnets and massive radio frequency cavities, the electrons and positrons will be zapped

in opposite directions through a vacuum at virtually the speed of light.

At this speed, their mass will be increased 200,000 times in accordance with Einstein's theory of relativity — the equivalent of a mouse acquiring the weight of an elephant.

Traveling around the tunnel billions of times a second in pencil-sized bunches along tightly focused beams, the particles will repeatedly collide, creating huge concentrations of energy that will materialize — or rather, dematerialize — into new particles. The collisions are also expected

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Argentina: Road to the Third World

By Peter Passell

BUENOS AIRES — Inflation is running at 100 percent a month. Factories are laying off their employees, and industrial production has virtually stopped.

Once the self-proclaimed outpost of European civilization, a nation blessed with most of the fertile farmland in Latin America and more than its share of oil wealth, Argentina is now applying for admission to the Third World.

In 1900 Argentines had roughly the same living standard as Americans. But three-quarters of a century of stuttering growth followed by a decade of unbroken decline has left Carlos Saul Menem, the president-elect who is scheduled to take office on July 8, to cope with what amounts to a Potemkin economy.

Art Deco banking edifices, bustling, fashionably dressed shoppers and streets choked with Peugeot and Fiat five-door downtown Buenos Aires the look of a Northern European capital. Yet, a few miles away, shantytowns are engulfing once-usable blue collar districts. And squatters' shacks are beginning to appear in the handsome residential neighborhoods to the north.

Unskilled workers who could once count on steak twice a day must now scramble to feed their families on the equivalent of \$40 or \$50 a month. And the wealthy, who have always had one foot out the door, are not taking any chances: They have stashed an estimated \$50 billion in banks from Montevideo to Milan.

What explains Argentina's fall from economic grace? The explosive inflation that has ravaged purchasing power and shut down bus-

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Kiosk

Strange Keeps U.S. Golf Title

ROCHESTER, New York (Reuters) — Curtis Strange became the first golfer to retain his U.S. Open championship on Sunday when he fired an even-par 70 to win by one stroke at Oak Hill Country Club.

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MONDAY Q&A



James D. Robinson 3d, chairman of American Express Co., reflects on post-1992 Europe. Page 2.

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Brazilian officials resigned after a stock scandal. Page 13.
Personal Investing
Private banks are extending their services to lure a wealthy, savvy clientele. Pages 9-12.
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WORLD BRIEFS

Soviets Report Rampage by Youths

MOSCOW (AP) — Crowds of youths rampaged through a city in the Central Asian republic of Kazakhstan early Saturday, looting private shops and setting cars on fire to protest rationing and price increases, a Soviet newspaper reported Sunday. Some injuries were reported but the paper, *Komsomolskaya Pravda*, did not give details.

The paper said that by late Saturday "the situation was normalized" in the town of Novy Uzen, in the extreme west of the republic on the Caspian Sea.

Local authorities negotiated for several hours on the city square with the youths, who were demanding the abolition of ration coupons, the paper said. They also wanted the closure of the private stores, or cooperatives, which they felt were responsible for food distribution problems and steep price rises.

Afghan Plane Crashes in Hijacking

NICOSIA (Reuters) — An Afghan plane with 35 persons aboard crashed Sunday in southeast Iran after a struggle between the pilot and unidentified hijackers, the Iranian news agency IRNA said.

It said 25 persons, including the pilot, were known to have survived. There was no word on the fate of the others aboard the Soviet-made Antonov-26. IRNA said injured passengers told Iranian officials the aircraft crashed "after a clash between its hijackers and the pilot, who lost control of the plane."

The twin-engine plane came down at 12:30 P.M. at Zabol on the Iranian-Afghan border, 1,100 kilometers (700 miles) southeast of Tehran.

Armenia Probe Cites Poor Buildings

MOSCOW (AP) — Investigators examining the rubble of buildings that collapsed in the Armenian earthquake say that empty buckets and other construction garbage were used in place of concrete, and criminal cases have been launched against those responsible.

The newspaper *Sovetskaya Industriya* reported Sunday that a government commission had given prosecutors the results of its probe into shoddy construction that contributed to the death of about 25,000 people in the Dec. 7 quake. A half million people were left homeless.

"Thousands of people could have survived the catastrophic earthquake in Armenia if basic building standards and regulations were observed," the newspaper said, citing the commission's conclusions. Those convicted of substandard construction and building code violations face a maximum penalty of five years in prison.

India and Pakistan in Glacier Accord

ISLAMABAD, Pakistan (Reuters) — India and Pakistan have agreed to observe a 17-year-old peace arrangement and to redeploy their forces on a disputed Himalayan glacier to reduce the possibility of conflict, the Pakistani foreign minister said Sunday.

Sahabzada Yaqub Khan said that the agreement concerning the Siachen Glacier removed a potential source of regional conflict.

India and Pakistan signed a peace agreement in 1972, after their war over Bangladesh, agreeing to a military control line in disputed Kashmir state, where the glacier lies 6,300 meters (20,670 feet) above sea level.

U.S. Ends Detention of Chile Activist

SYDNEY (AP) — A leftist Chilean activist who has refugee status in Australia flew back to that country on Sunday after being released from five days of detention by the U.S. authorities in Alaska.

The activist, Eduardo Rojas, 21, was returned last week from a flight in Anchorage along with another leading Chilean dissident, Sergio Buschmann. At the time, Mr. Buschmann, 46, was being deported from Australia to his home in Sweden for violating the terms of his tourist visa by holding several anti-Pinochet fund-raising rallies.

The government of Chile had sought the extradition of Mr. Buschmann on charges of smuggling arms, but Mr. Buschmann was released on Friday along with Mr. Rojas. Mr. Rojas said he had been handcuffed and placed in solitary confinement for five days with no explanation. "I understand what was going on with Sergio Buschmann," he said, "but I could not understand what was happening to me."

For the Record

Salman Rushdie, the British author "sentenced to death" for blaspheming Islam by the late Iranian leader Ayatollah Ruhollah Khomeini, was reported by the BBC as saying that an interview with him published Sunday in the British tabloid *Mail* on Sunday was "false."

An Arab motorist shot and wounded an Israeli Army officer on the Gaza Strip on Sunday, a rare case of a gun being used against the occupying Israelis during the 18-month-old Palestinian uprising. The gunman escaped. Separately, Israeli troops battling scattered unrest shot and killed an Arab youth in Nabulus, the largest Arab town on the occupied West Bank, hospital officials said.

TRAVEL UPDATE

Managua Plans Visas for U.S. Visitors

MANAGUA (LAT) — The Sandinista government will require visas of all U.S. citizens coming to Nicaragua starting July 1. The requirement will complicate travel plans for the 1,200 or so Americans who visit Nicaragua each month.

The visas will be issued by Nicaraguan consulates. Visa applications will be processed within 24 hours if they are submitted in person or within a week in the case of applications by mail, a Nicaraguan Foreign Ministry official said. The only Nicaraguan consulate in the United States is in Washington.

Since 1983, U.S. citizens have been able to enter Nicaragua for 30-day visits by filling out a yellow tourist card at border crossings or the international airport in Managua. A Nicaraguan Foreign Ministry official said Sunday that the new requirement was adopted to apply "strict reciprocity" in bilateral relations after the expulsions of two U.S. diplomats from Managua and two Nicaraguan diplomats from Washington last month. The United States requires visas of Nicaraguan visitors.

Australia will no longer insist on reciprocal landing rights when negotiating international aviation agreements, Transportation Minister Ralph Willis said in Sydney. Aviation officials said the change of policy would not affect plans by the state-owned airline Qantas to increase weekly flights to Japan to 24 from 16 by November.

This Week's Holidays

Banking and government offices will be closed or services curtailed in the following countries and their dependencies this week because of national and religious holidays:

MONDAY: Algeria, Argentina, Bermuda, China, Fiji, Gibraltar, Greece, Hong Kong, Macao, Uruguay.

WEDNESDAY: Togo.

THURSDAY: South Yemen.

FRIDAY: Finland, Luxembourg, Sweden.

SATURDAY: Andorra, Finland, Macao, Sweden, Venezuela, Zaire.

SUNDAY: Mozambique.

Source: Morgan Guaranty Trust Co., Reuters.

WEATHER

EUROPE				ASIA			
	HIGH	LOW			HIGH	LOW	
Amsterdam	22	12		Bangkok	32	22	
Antwerp	22	12		Beijing	32	22	
Birmingham	22	12		Bombay	32	22	
Boston	22	12		Calcutta	32	22	
Brexit	22	12		Hankow	32	22	
Buenos Aires	22	12		Harbin	32	22	
Cardiff	22	12		Heilongjiang	32	22	
Copenhagen	22	12		Hong Kong	32	22	
Dallas	22	12		Kobe	32	22	
Dublin	22	12		London	32	22	
Edinburgh	22	12		Manila	32	22	
Geneva	22	12		Osaka	32	22	
Helsinki	22	12		Seoul	32	22	
London	22	12		Singapore	32	22	
Los Angeles	22	12		Taipei	32	22	
Lyon	22	12		Tokyo	32	22	
Madrid	22	12		Yokohama	32	22	
Moscow	22	12					
New York	22	12					
Paris	22	12					
San Francisco	22	12					
Seattle	22	12					
Shanghai	22	12					
Stockholm	22	12					
Switzerland	22	12					
Taipei	22	12					
Tokyo	22	12					
Yokohama	22	12					

American Express Chief Gets Ready for Post-1992 Europe

James D. Robinson 3d is chairman and chief executive officer of American Express Co. and chairman of the U.S. government's Advisory Committee for Trade Policy and Negotiations. He talked to *Reginald Dale*, economics correspondent of the *International Herald Tribune*, in Brussels.

Q. Some Europeans fear that the biggest beneficiaries of the European Community's post-1992 single market will be American and Japanese companies, particularly those with wide international experience, like American Express.

A. There will be as many success stories of European companies as American and Japanese.

Clearly we have experience operating around the world. But our motto is to think globally and market locally. So a European firm that has done a particularly good job of marketing locally is going to prosper from the EC opening up.

Q. Can it really be a single market without a common currency?

A. I think it can. In many ways the EC semi-enjoys a common currency now, because the European Monetary System has operated as a currency discipline of

sorts. So I think you can have the economic integration separate from monetary integration. If it leads to monetary integration, that's fine.

A common currency would reduce some of the administrative headaches perhaps, but the way the currency mar-

MONDAY Q&A

kets operate now gives one the latitude to move capital and invest.

Q. You have recently called for new ideas in U.S. relations with Japan, and said one reason for American frustration is that the Japanese can live with almost any yen/dollar exchange rate.

A. The Japanese have an incredible capacity to respond and change and have been able to accommodate dramatic currency swings. One of the things that reflects their substantial advantage through a cheap cost of capital, for equity or debt, and that is a part of their very high savings rate and the highly effective mobilization of those savings.

In a macro sense, Japan has also done a much better job than the United States. It has adjusted from being principally export-driven to a more balanced econ-

omy. I have taken steps to induce spending rather than simply savings.

The United States, on the other hand, has not yet successfully addressed its domestic deficit. Nor has it taken steps to effectively encourage savings relative to consumption. Without those macro changes all the micro focus and trade law change will be for naught.

Q. You believe businessmen should play more of a role in opening up the Japanese market?

A. A recent ACTPN report suggested that there could be an industry-by-industry dialogue in which businessmen would sit down and ask the Japanese if the problems were due to distribution channels, for instance, or the locked-in system of customer supply.

If so, they would ask what the Japanese could do to change that, to reach out to foreign companies, because it no longer is really a fact of life simply to say that U.S. goods aren't designed for the Japanese market.

Q. Are you saying that U.S. business could do a better job, in contacts with Japanese businessmen, than the U.S. government with its new Super 301 trade weapons? [Under the Super 301 clause of

the 1988 U.S. Trade Act, nations cited must agree within 18 months to end offending practices or face retaliation.]

A. In my view that is the case.

Q. How do you see the U.S. Brady plan for international debt relief coming along?

A. To deal with the debt problem you've got to change the negative outflow of cash from the countries who need investment the most.

That requires debt reduction, as the Brady plan is proposing, and substantive structural reform within the debtor countries themselves—privatization, less protection of local industry, less import substitution, greater encouragement of foreign investment, greater protection of technology transfer through sound intellectual property regulations.

If you could have an initiative that packaged substantive change within a debtor country for substantive debt service reduction by the banking community, encouraged by forms of credit enhancement or guarantees from the industrial governments, then that is a formula for success.

Q. Are we a long way from that?

A. We are still further from that than I

would like to see. Somebody has to bring the process together.

That's why I have suggested the creation of an international institution as a joint venture between the IMF and the World Bank with a very small highly professional staff, chaired by someone who is respected worldwide.

A debt ambassador is absolutely necessary and I don't see how that someone can be the banking negotiating committees.

Q. A debt czar?

A. Yes, or czarina. Because all the parties have a vested interest. The banks do, the debtor countries do, the creditor governments do. After all, it's substantially more than just a banking problem. It means jobs, it touches on domestic prosperity and foreign policy and national security.

We have all the incentive in the world to do something creative and comprehensive about it so as to have the chance of really being successful, as distinct from simply deferring the problem. During the 1980s we proved that we knew how to defer the problem, but we didn't solve it and in fact perhaps in some respects, in some countries, it's a bigger problem now.

East German Line Resumes Flights After Fatal Crash

Reuters

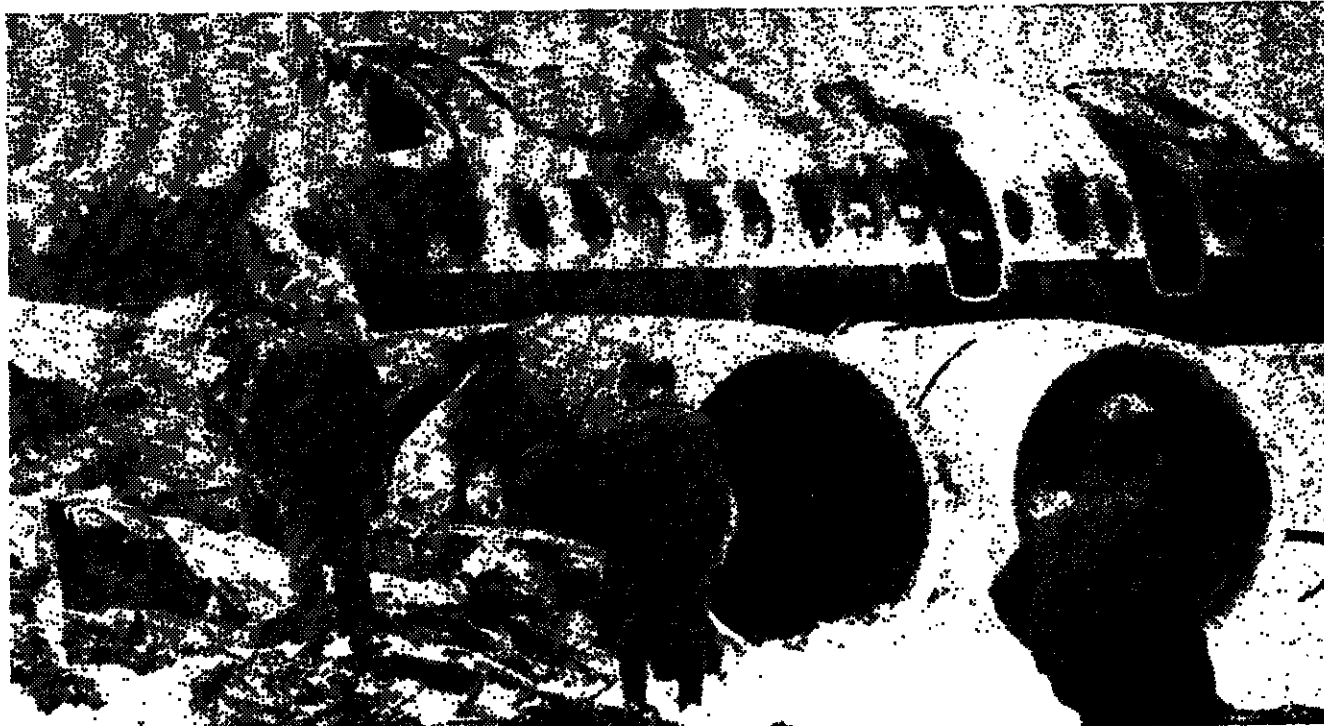
BERLIN — The East German state airline, Interflug, has resumed a grounding of its Soviet-built Ilyushin-62 airliners imposed after a crash on Saturday near Berlin that killed 17 persons and injured dozens.

ADN, the official press agency, said Sunday that five of Interflug's 11 Ilyushin-62s had been cleared by experts. It said that two took off during the night for Singapore and Havana.

Hours after the Moscow-bound airliner had tried to halt its takeoff, crashing into a field and bursting into flames, Transport Minister Otto Arndt ordered all its Ilyushin-62s grounded pending an inquiry.

"After thorough checks, five aircraft were released for use by early on Sunday," ADN said without elaboration.

The agency said technical specialists were still examining the flight recorder recovered from the burned-out remains.



East German rescue teams picking their way through the wreckage of an Interflug Ilyushin-62 that crashed on takeoff Saturday.

Haughey To Seek New Government

By Craig R. Whitney

New York Times Service

DUBLIN — Prime Minister Charles J. Haughey, conceding failure in his attempt to secure an electoral majority, says he will do his best to form another minority government when the next parliament meets later this month.

"I wanted a majority—I didn't get it," Mr. Haughey said on national radio Saturday as the vote count went into its second day.

Mr. Haughey's Fianna Fail party won 77 seats, 6 short of an overall majority in the 166-seat Dail. Next came the center-right Fine Gael with 55; the leftist Labor and Workers Parties combined to take 22 seats on 14 percent of the vote, more than 4 percent over their previous showing.

The Progressive Democrats, made up of Haughey dissidents, won six seats and the rest went to independents.

Mr. Haughey's most likely option when parliament convenes on June 29 is a working majority that depends on informal support from his primary opposition, Fine Gael—the situation he sought to escape by calling the election.

Spokesmen for Fine Gael declined comment on what their leader, Alan M. Dukes, would do, but said he would still propose himself as a candidate for prime minister, even though he lacks the necessary majority in parliament.

Mr. Haughey will need abstentions or support from some Fine Gael and independent parliamentary deputies to form another government.

"We will form a government," he said. "We will just have to see what happens."

He noted that there was broad agreement between the two biggest parties on the necessity to keep government spending under control, but blamed the effects of spending cuts in the national health service for his setback.

"The attitude of the people toward the reductions in health expenditures was much deeper than anyone had expected," Mr. Haughey said. "It wasn't until after we really got into the campaign that we discovered the intensity of it."

Government spending on health services was reduced from the equivalent of \$1.82 billion before Mr. Haughey took over in 1987 to \$1.54 billion this year.

I.F. Stone, Crusading Journalist, Is Dead

By Bart Barnes

Washington Post Service

WASHINGTON — I.F. Stone, 81, the crusading and iconoclastic journalist and author whose anti-establishment newsletter, *I.F. Stone's Weekly*, made him a folk hero to the New Left in the 1960s and 1970s, died Sunday at a hospital in Boston after a heart attack.

A longtime heart patient, he was in Boston for medical treatment when he was stricken. He lived in Washington.

Mr. Stone published his Washington-based newsletter of fact and opinion for 19 years before closing it because of failing health in 1972. When the publication folded, its circulation had reached more than 70,000 and its influence was felt, although not welcomed, at the highest levels of government. Former Vice President Spiro T. Agnew once called it a "strident voice of liberalism."

A dogged investigator and a concise and clever writer, Mr. Stone got most of his news by burrowing through the fine print of thick manuscripts, combing the public record for deceptions and contradictions by public officials, studying transcripts of debates in the Congressional Record and poring over records of obscure committee hearings and reports.

He was among the first to challenge the factual basis for the 1964



I.F. Stone

Gulf of Tonkin Resolution that led to the escalation of U.S. participation in the war in Vietnam, and he was an early and vocal critic of U.S. conduct in the Southeast Asian conflict. He investigated the Atomic Energy Commission. He pilloried military spending, McCarthyism, pompous bureaucrats, big business and most high public officials, including Presidents Dwight D. Eisenhower, John F. Kennedy, Lyndon B. Johnson and Richard Nixon.

In 1952, when he founded his paper on an investment of \$6,500, he was 44 years old and unemployed after having spent more than two decades as a reporter and editorial writer for a succession of liberal newspapers.

For the next 19 years he would be the sole proprietor, publisher, editor and principal reporter for his paper.

John Matuszak, 38, Lineman for Oakland in Super Bowls LOS ANGELES (AP) — John Matuszak, 38, the former defensive lineman who was a hard-hitting,

hard-living member of two Super Bowl teams for the Oakland Raiders before turning to an acting career, died Saturday, apparently of a heart attack.

Mr. Matuszak was stricken at his home Saturday night and was taken by paramedics to St. Joseph Medical Center in Burbank. An autopsy was scheduled. A preliminary police investigation found no signs of foul play.

He played with the Raiders from 1976 to 1981. At 6 feet and 9 inches (206 centimeters) tall, he was an imposing sight on the field, staring down opponents before shooting off the defensive line with great speed for his 280 pounds (127 kilograms).

Mr. Matuszak's aggressive play and tough attitude helped earn his team Super Bowl victories in the 1976 and 1980 seasons. His off-field antics often gained him as much notoriety as his play. In 1981, he violated team curfew by partying in New Orleans the night before the Super Bowl.

After sitting out the 1982 season in Los Angeles with an injury, he retired to pursue an acting career. He usually played the tough guy in guest spots in film and television. Charles Mohr, 60, Reporter on Vietnam and the Midwest NEW YORK (NYT) Charles Mohr, a prize-winning correspon-

dent who covered the wars in Vietnam and the Middle East as well as political and military affairs for *The New York Times* for 25 years, died of heart failure in a Bethesda, Maryland, hospital Friday night on his 60th birthday.

His assignments included India, Africa and Asia, numerous presidential campaigns and the White House in the administrations of Dwight D. Eisenhower, Lyndon B. Johnson and Jimmy Carter.

In recent years, based in Washington, he covered military affairs and military policy, including procurement scandals and the talks on limitation of strategic arms.

Mr. Mohr was one of eight reporters and editors who won the 1986 Pulitzer Prize for explanatory journalism for *The Times* for a series of articles on the Reagan administration's plans for a space-based missile defense system known as the Strategic Defense Initiative.

But it was as a Vietnam war correspondent in the 1960s, for *Time* magazine in 1962 and 1963 and for *The Times* from 1964 to 1970, that Mr. Mohr was best known.

He was one of a handful of correspondents whose reporting challenged false official accounts and presaged the failure of U.S. and South Vietnamese policies in the war.

Captain S. David Griggs, 49, Veteran U.S. Astronaut

EARLE, Arkansas (WP) — Navy Captain S. David Griggs, 49, an astronaut who flew on the space shuttle in 1985 and was training to pilot a mission in November, died Saturday in a plane crash in eastern Arkansas, authorities said.

They said Mr. Griggs was flying for a private air service based in Earle. He had been an astronaut since August 1979.

Forest Burns on Soviet Isle

MOSCOW — A fire has burned out of control for a week on the Soviet island of Sakhalin in the Sea of Okhotsk north of Japan, destroying thousands of hectares of forest on the 73,000-square-hectare, (28,000-square-mile) island, the Communist Party newspaper *Pravda* reported Sunday.

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Israelis Buy 'Satanic Verses'

Reuters

JERUSALEM — Israelis clamoring to buy the Hebrew translation of Salman Rushdie's novel "The Satanic Verses" snapped up all 4,000 copies of the first print run in three days, the publishers said Sunday.

Solidarity has also stressed that it made no commitment to support General Jaruzelski in the presidential elections and will decide only after the election of parliament how to act.

Before the elections, party and opposition leaders assumed that General Jaruzelski would be elected president. A senior party official announced that he would be a candidate. However, in a sign of the Communists' unexpected vulnerability, a government spokesman said last week that General Jaruzelski had not decided whether he would run for the new office, which will be filled by the two newly elected chambers of parliament meeting in joint session.

In an effort to bolster the incoming government, General Jaruzelski and other senior party leaders have strongly urged Solidarity to appoint ministers to a coalition cabinet. But despite its tacit partnership with the Communist leadership, Solidarity has repeatedly refused, saying it would remain in opposition and work with the party only on an issue-by-issue basis.

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DENNIS

From Republicans, a Message Of Tough, Aggressive Politics

By Dan Balz

Washington Post Service

WASHINGTON — The message that came out of the Republican National Committee meeting that ended here over the weekend bore no resemblance to the kinder, gentler rhetoric of President George Bush. Instead it was a red flag to the Democratic opposition: no quarter asked or given.

National party officials, publicly on the defensive over a committee memorandum attacking the new House speaker, Thomas S. Foley, began the week fully prepared to whip up support for the committee's chairman, Lee Atwater, who Democrats said should resign as the person ultimately responsible for the memorandum.

Instead, Mr. Atwater and Republican National Committee staffers found themselves trying to restrain their members, who not only wanted to condemn Mr. Atwater and the House majority whip, Newt Gingrich of Georgia, for their aggressive attacks on the Democrats, but also wanted to condemn the House minority leader, Robert H. Michel of Illinois, for moving so quickly to repudiate the memorandum and for accommodations with Democrats.

In a private meeting late last week, several state Republican leaders raised the possibility of issuing some kind of criticism of Mr.

Michel, an old-guard Republican who is clearly uncomfortable with Mr. Gingrich's confrontational style. Eventually they were persuaded that any such statement would backfire against Mr. Gingrich and Mr. Atwater.

Coming after a period of extraordinary partisan warfare in Congress over the nomination of John G. Tower as secretary of defense and, more recently, the resignations over ethics charges of the former House speaker, Jim Wright, and the former House majority whip, Tony Coelho, the meeting might have acted as a circuit breaker to reduce some of the concerns that politics had become too negative and personal.

But several of the state party leaders who met in Washington last week represent a newer breed, many of them schooled in Mr. Atwater's style of politics and receptive to Mr. Gingrich's message that the Republicans must constantly confront the Democrats if they are to see their presidential majorities trickle down to the Congress and the state houses.

"Forty percent of these guys are new state chairmen," a Republican National Committee official said. "They want to win. They all believe in tough aggressive politics."

That is exactly what Mr. Atwater and Mr. Gingrich promised in their speeches on Friday.

Mr. Atwater outlined objectives, beginning with governors' races in Virginia and New Jersey this year, designed to put the party into position for what is expected to be a vigorous battle over redistricting after the 1990 census and elections.

He said that the party would continue to try to win control of enough state legislative houses and governorships to counter the Democrats' traditional strength at the state level in the redistricting fight.

Mr. Gingrich urged the Republicans to attack the "political left," and said that with "George Bush playing Eisenhower and Lee Atwater playing Patton," the Republicans had an opportunity to wrest power from the opposition.

The response to Mr. Gingrich's speech surprised even some committee officials, who said that the new Republican whip had come to symbolize to state Republican party leaders their hunger for power beyond the presidency.

Although many committee members believed that the memorandum calling Mr. Foley a "closet liberal" was a mistake, the meeting in Washington confirmed that Mr. Atwater's style of politics enjoyed support among the rank-and-file.

"I don't think politics has gotten too negative," said Jennifer Dunn, Washington state chairman, adding that she believed in "going after the opposition on the issues."

AMERICAN TOPICS

Not All Phone Calls Need Be Interrupted

The "call waiting" device on many new telephones, allowing the user to handle two calls at the same time, can be a mixed blessing. The New York Times suggests in an editorial, but help is on the way.

"Call waiting" service can be a godsend. The Times notes. It signals another incoming call. The listener can put call A on hold while checking out call B. "It's cheaper than two phones or hiring a secretary, and it's a real help in emergencies. But the person on call A may feel angry at being interrupted."

Now, however, C&P Telephone Co. in Washington enables subscribers to cancel "call waiting" by dialing a special code before making a call that they do not wish interrupted. During that time, incoming callers get a busy signal.

Nynex Corp. in New York takes this a

step further: One can head off interruptions during the conversation. Callers will be impressed when you tell them, "Wait a second, please, while I cancel my 'call waiting.' This call is too important to be interrupted."

"Experienced ego manipulators," The Times says, "will quickly realize it is not even necessary to subscribe to the basic service in order to pretend to cancel it. At last, a service that's really a service."

Notes About People

Ronald Reagan is keeping busy, as witness his trip to Britain and France last week. And by all reports, he is enjoying life after the White House. "He loves being back in California," said Morton Janklow, the former president's literary agent. "I find him very much at ease." Mr. Reagan, 78, has been working on his memoirs and a collection of his addresses, receiving visitors, relaxing at his ranch and giving speeches.

Several editorial cartoonists were invited to lunch with President George Bush at the White House last week, including some who have lampooned him — Pat Oliphant,

Tony Auth and Jeff MacNelly. But Gerry Trudeau, creator of "Doonesbury," was not invited. Mr. Trudeau has pictured Mr. Bush as putting his manhood in a blind trust, and as having an imaginary twin brother to do the political dirty work. Asked if Mr. Trudeau would ever make the White House guest list, the White House spokesman, Martin Fitzwater, said, "Not in my lifetime."

Short Takes

The cost of settling malpractice claims dropped last year, after an 11-year climb, to \$4.1 billion, down \$100 million from 1987. Insurance premiums have been reduced accordingly. Doctors say they have been tightening their procedures. Lawyers cite new state laws restricting malpractice awards. Insurers are cautious, recalling a dip in the late 1970s that proved to be temporary.

The International Joint Commission, a U.S.-Canadian agency, has urged both countries to assign their coast guards to help bar new animal species from the Great Lakes in an effort to prevent further harm to the region's ecology. Nonnative life

forms introduced by accident or design over the years that continue to intrude on the lakes' native species include the sea lamprey, alewife, coho salmon, Asiatic clam, zebra mussel and river huffe.

How to While Away A Flight With TWA

TWA's in-flight magazine has an item enabling passengers to while away the in-flight hours trying to figure it out. It baffled even one Ph.D. in mathematics, according to the Metropolitan Diary column of The New York Times. The item:

"TWA operates out of Terminals A and B at New York's Kennedy Airport. The two terminals are connected by an enclosed walkway. TWA domestic and Caribbean flights use Terminal B. (A few domestic flights may arrive at Terminal A during the afternoon.)

"TWA transatlantic flights depart and arrive at Terminal A. (Exception: since all TWA flights prior to 1 P.M. use Terminal A. Flight 702, TWA's morning flight to London, departs from Terminal B.)"

Arthur Higbee

Ex-Reagan Lieutenant Under Fire

Aides Say Housing Chief Never Got Control of Agency

By E.J. Dionne Jr.

New York Times Service

WASHINGTON — Samuel R. Pierce Jr., the only member of Ronald Reagan's cabinet to stay in his job during the entire eight years of that administration, brushed at the nickname "Silent Sam."

But members of Congress and former aides say that Mr. Pierce was usually as detached in his approach to his department's inner workings as his taciturn public persona suggested.

They say the former secretary of Housing and Urban Development, a model Reagan cabinet member when it came to following the president's wishes on cutting government programs, was personally interested in just a handful of housing issues. He is said to have left most other decisions to aides, intervening only occasionally to resolve disputes among them.

Mr. Pierce did receive briefings on an investigation of large consultants' fees paid to prominent Republicans at his authorization, the inspector general, Paul A. Adams, testified last week.

The former aides also say the agency, now under fire from Mr. Pierce's successor as "a swamp" of mismanagement, was crippled by high turnover in top jobs and by vacancies in many high posts that went unfilled for long periods.

Interviews with Mr. Pierce's associates in Washington, in New York and in California provide a portrait of an earnest and extremely loyal Republican who never quite got control of his department.

The agency also suffered from blurred lines of authority, with the Reagan White House often imposing its own choices for top deputies on Mr. Pierce, the former aides say.

Mr. Pierce's defenders say that he deserves far more credit than he has received for drastically cutting his department's payroll, from



Samuel R. Pierce Jr.

say except for one stormy session before a House panel early this month in which he argued that his agency was too big for one man to keep track of.

But people who know him suggest that Mr. Pierce simply did not have the skill to manage the vast bureaucracy.

"There's not the slightest doubt in my mind that Sam is very honorable, and I know he's a good lawyer," said Theodore W. Kheel, a longtime friend and former law partner.

"The question is whether he's a good administrator. I'm not sure that Sam, from an administrative point of view, was equal to running a department the size of HUD."

At the department's weekly staff meetings, which were described by one former aide as "perfunctory," Mr. Pierce presided but was not a dominating presence.

"He reminded me very much of a senior partner at an old law firm," said J. Michael Dorsey, who served as general counsel at the agency under Mr. Pierce.

Democratic members of Congress said they were struck by his lack of concern for detail. "Getting through a meeting with Sam Pierce was an astounding experience," said Representative Charles E. Schumer, Democrat of New York.

"He would just give his opening speech and then his staff would answer questions," Mr. Schumer said. "He would chime in anecdotally, just like President Reagan."

Mr. Pierce, who declined through an intermediary to be interviewed for this article, has argued that the "Silent Sam" nickname was deeply unfair.

In an interview with The New York Times in January, he said it was the product of his refusal to see the press in his first three months in office while he "studied the hell out of these programs."

Mr. Pierce has had nothing to

Unmanned Plane Sets New Altitude Marks

The Associated Press

SEATTLE — Two U.S. altitude records, including one that had stood for 51 years, have been broken by an unmanned aircraft developed by Boeing Co.

The black and silver aircraft, nicknamed the "Condor," set an altitude record for piston-powered aircraft by reaching 66,980 feet (20,465 meters) above sea level dur-

ing a test flight. Boeing Advanced Systems said in a news release. That broke a world-class maximum altitude record of 56,046 feet set in October 1938 by Mario Pezzi, an Italian, in a Caproni biplane.

At the same time, the Condor also set a special-category national record for altitude in horizontal flight, beating the world-class, manned record of 31,791.72 feet for

piston aircraft set in 1983 by Stephen Oster, an American.

The Condor is twin-engine, robotic aircraft designed for flights of up to several days.

Boeing Advanced Systems, a Boeing operating company, has been developing the plane for such uses as reconnaissance, communications relay, weather research and border patrol.

WOULD YOU GIVE YOUR DAUGHTER ONE OF THESE? — Toy stereotypes persist: dolls for girls, ray guns for boys. Theories differ as to why. Shown below are some boys' toys with, from left, two GI Joe figures, Hot Wheels, a Teenage Mutant Ninja Turtle and a Real Ghostbusters Shogun Battle. "Girls' play involves dressing and grooming and acting out their future," says a spokeswoman for Mattel Inc., makers of the Barbie Doll. "Boys' play involves competition and conflict." Others point to peer pressure and toy ads on television.



The New York Times

QUARK: At the Very Heart of Matter, High Energy Physicists Probe Origin of Universe

(Continued from page 1)

to reveal knowledge of the mysterious "weak force" that binds together leptons — the generic name for particles like electrons and neutrinos which appear to have no size.

Like the other known forces in nature — gravity, electromagnetism, and the strong force — the weak force is conveyed by "bosons," particles named after the Indian physicist Satyendranath Bose.

These particles act as messengers, or the cement between the basic building blocks of matter. In 1984, the CERN scientists Carlo Rubbia and Simon Van der Meer, won the Nobel prize for having discovered the previous year the three bosons connected with the weak force, known as Z, W+ and W- bosons.

Since then, the CERN laboratory has produced several hundred of the curiously heavy Z bosons, which have a life span in seconds of 2.5×10^{-26} . The Stanford Linear Collider in the United States also started producing Z bosons in April.

One of the primary aims of the CERN collider is to create Z bosons by the millions so that a serious study may be made of their behavior and of the way they interact with other particles.

Scientists believe that one of the reactions they may be able to observe is the decay of a Z boson into a particle called a "top quark" and its companion, a top anti-quark.

Physicists have already detected what they call a bottom quark — along with up, down, strange and charmed quarks — and, being lovers of symmetry, they have a strong theory that a top quark, of much greater energy than any of the others, must exist as well.

The confirmation of this theory would add the last piece to the quark puzzle, help round out the so-called standard model of the various particles and their interactions and perhaps contribute to a theory unifying all the forces of nature.

Quarks take their name from a line in James Joyce's "Finnegans

Wake," "three quarks for Muster Mark" — an allusion to the fact that they and the anti-quarks are found in threes, trapped inside other particles, but never on their own.

For an almost infinitesimal fraction of a second at the start of time and space, physicists believe, the quarks swam freely in a kind of cosmic "soup" or plasma until they were trapped by bosons called gluons and began to coalesce into matter, all of which happened before the universe had grown to the size of a pea.

The task of the CERN collider is to recreate enough energy briefly to release the quarks from captivity in the way that heating ice enables the

atoms of hydrogen and oxygen to move in water.

The higher energies available in the Large Electron-Positron Collider may make it possible to verify a theory that postulates that matter was brought into existence by yet another creature, known as Higgs Particle, a kind of boson.

John Ellis, head of CERN's theory division, said that the Higgs Particles acted like mud that stuck to other particles, preventing them from flying apart at the speed of light and giving them mass or weight.

The collider's maximum energy of 100 GeV, or 100 billion electron volts, for each of the two particle beams will, it is hoped, heat particles to the point where they again have no mass, making it perhaps possible to see a Higgs Particle.

"I would say there is only a 50-50 chance, because we are not absolutely sure how much energy will be required," Mr. Ellis said. "The Higgs boson is of philosophical importance because it is a new type of particle which plays a different role in the theory."

Higher energies will be obtainable from the U.S. supercollider, which will be built in Texas at a cost of several billion dollars. But that will slam protons together.

Proton collisions, Mr. Ellis said,

"are difficult to analyze because you end up with so many bits and pieces," and this would make it difficult to find something as elusive as a Higgs Particle. "You can do much more precise and detailed experiments with electrons and positrons than you can with protons," he said.

CERN has its own plans for building a proton-proton collider using a second ring of superconducting magnets in the existing tunnel, which, Mr. Rubbia, the director-general of CERN, says, "will enable us to keep pace with planned research initiatives in the United States and the Soviet Union at a fraction of the cost."

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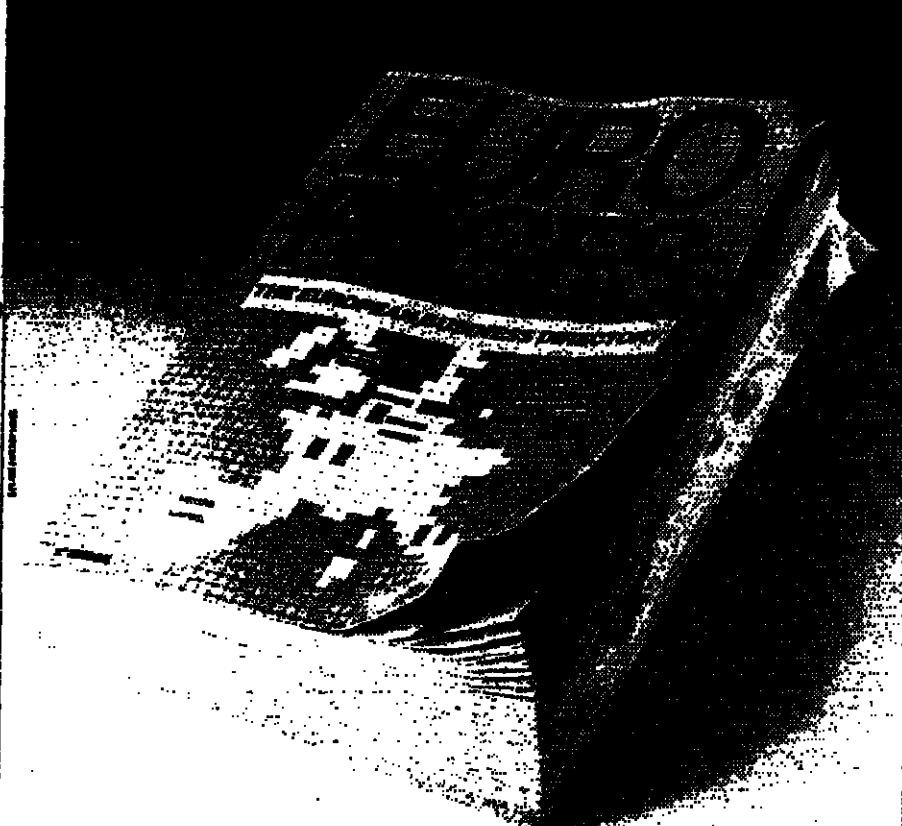
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ARMS: U.S. Wants to Test Inspection Before Agreeing on a New Treaty

(Continued from page 1)

pliance could not be adequately verified, the officials say.

The new approach was sharply criticized Friday night by an independent arms-control group and several congressional aides, who said it could needlessly hold up progress in the negotiations, and might be an unworkable approach to resolving some disputed issues.

Spurgeon Keeny Jr., executive director of the Arms Control Association, called the approach "outrageous" and said "the Bush administration appears to be trying to kill prospects for completion of President Reagan's agreement, which is now within its grasp."

Mr. Keeny's complaint is that the Soviets are unlikely to allow intrusive weapons inspections without some assurance that a new arms treaty would be achieved.

A senior defense official, who disclosed the plan Friday, said potential Senate concerns about the verifiability of a new arms accord, as well as the Soviet Union's new policy of glasnost, or openness, had figured prominently in the plan's development.

Another official, who confirmed the account, commented: "Three years ago, we would have considered this pretty flaky, but the Soviets are allowing a lot of things today that they haven't allowed before." This includes the current visit of Admiral William J. Crowe Jr., chairman of the Joint Chiefs of Staff, to a Soviet bomber base, naval port and ballistic missile unit.

Development of the plan may also signal that the Bush administration does not share the Reagan administration's confidence in the verification measures proposed so far by U.S. negotiators.

Last September, for example, then-Secretary of Defense Frank C.

Carlucci told the House Armed Services Committee that the U.S. verification procedures could significantly reduce the risk of undetected Soviet cheating on constraints involving stored missiles and missiles deployed in silos.

Max M. Kampelman, Mr. Reagan's chief arms negotiator, similarly said in an interview Saturday that Mr. Bush "will end up where we ended up because we went into it rather carefully and arrived at a pretty broad consensus that we could severely verify" agreed provisions in the 400-page draft treaty.

In contrast, the senior defense official who briefed reporters Friday said he thinks that trial inspec-

tions are needed to help correct "major verification problems in the agreed elements of the treaty," as well as areas involving mobile and stored ballistic missiles.

Under this approach, the administration would not seek to work out related treaty provisions until an inspection protocol had been negotiated, implemented and analyzed, raising the possibility of a significant delay.

The approach to trial inspections is apparently not yet fully agreed upon, however, because some aides challenged any notion that a final decision on mobile missiles would be delayed until after the proposed inspections.

EUROPE: Gains by the Left

(Continued from page 1)

were expected to be announced Monday.

The overall outcome foreboded new turbulence for European leaders trying to push ahead smoothly to full economic integration.

During its five-year term, the new parliament will carry through the ambitious plans for creating an economically integrated single market in Europe by the end of 1992.

Low turnout reflected uncertainty if not disenchantment among voters about the prospects of a more competitive Europe. Gains by fringe parties — Greens on the left and some far right parties — appeared likely to make it harder for the assembly to work with governments.

Several countries were likely to see their domestic political outlook affected by the outcome, including West Germany and Britain.

In West Germany, the election was widely seen as a referendum on the leadership of Mr. Kohl, whose political popularity has nose-dived in the last six months and inflicted a series of regional electoral losses on his Christian Democratic party and their junior coalition partners, the Free Democrats.

The outcome suggested that Mr. Kohl and Foreign Minister Hans-Dietrich Genscher, the most prominent politician among the Free Democrats, had benefited from recent West German diplomatic accomplishments, notably the visits of President George Bush and Mikhail S. Gorbachev, the Soviet leader, within days of each other just prior to the vote.

Franz Schönhuber, leader of the Republicans, described his party's showing as "fantastic" and called the EC "deadly" for West Germany.

Support for the Republicans, who campaigned largely on anti-immigrant themes, came largely at the expense of the Christian Democrats. But the Republicans did poorly in areas with high voter turnout, a pattern that suggested they might not weigh heavily in future national elections.

Officials of the Free Democrats said they had obtained their objective of winning at least 5 percent of the vote, returning them to the European Parliament after a 5-year absence.

Those who would blame everything — and thus no one — for Argentina's chronic economic woes believe the source lies deep in Argentine culture.

What else could one expect, argues Moises Ikonofsky, a senior adviser to Mr. Menem, from a nation of displaced Europeans who never earned their initial success and thus had no reason to equate productive work with economic reward?

Some criticize President Raúl Alfonsín, who was swept into office in the restoration of democracy in 1983, for choosing not to risk his personal popularity in an all-out effort to persuade Argentines to sacrifice for the commonweal.

And some economic analysts, including Jeffrey Sachs of Harvard University, believe that international leaders let down the struggling democracy in the last three years by asking far too much in return for debt relief.

V.S. Naipaul, the novelist and essayist with an acute eye for decadence, sees Argentina's problems in its 19th-century origins as a nation of "plunderers" exploiting the vast, rich pampas for cattle and then grain. Mr. Ikonofsky, and many other Argentines, express the same idea less pejoratively.

He likens Argentina's initial successes to Spain's looting of Incan gold in the 15th century and the oil windfall to OPEC nations in the 1970s.

In each case, he says, great wealth was created without much work or investment, leaving little of the social and physical infrastructure needed for development. Big government evolved as the refuge between increasingly organized interests, doling out jobs, subsidies and guaranteed markets.

Juan D. Pervin, the charismatic leader who intermittently dominated Argentine politics from 1946 until his death in 1973, fits into this "corporatist" interpretation as the defender of the previously unrepresented urban working class.

To cement a power base, he increased the bargaining leverage of his union supporters, forcing employers to pay higher wages and provide generous fringe benefits.

Some of the cost was absorbed by large landowners, who were taxed on meat and grain exports. But most was absorbed in the cost of products sold by state-owned monopolies and by private companies protected from foreign competition.

This realignment of power was stable in the first years after World War II because export prices were very high and total income was growing rapidly. But it stuck Argentina with an inefficient industrial sector, whose success or failure turned on its bargaining power with government.

Good luck with export prices did not hold. Argentina did manage to achieve a slow but relatively steady growth, increasing per capita output at about one-third the rate of Japan in the first three postwar decades, but that proved not nearly enough to meet the collective expectations of big landowners, industrialists, blue-collar workers and the growing middle class.

The military takeover in 1976 simply shuffled the power brokers. Economic management grew worse, as the deficits of state-owned enterprises ballooned and the government allowed the rich to recycle tens of billions of publicly borrowed dollars into their own foreign bank accounts.

In 1984, Mr. Alfonsín inherited a \$45 billion foreign debt, a negative rate of capital investment and a series of bargains with interest groups that kept bloated government bureaucracies and inefficient industries afloat at the Treasury's expense.

In early 1985 inflation accelerated toward an annualized rate of 2,000 percent. The fiscal deficit accelerated with it, as Argentines settled tax liabilities incurred months before in badly depreciated currency. Something had to be done, and something was: the Austral Plan.

Named for the new currency that replaced the peso, the plan included a temporary freeze on wages, prices and exchange rates and an agreement from international creditors to stretch out payments, as well as a promise to raise taxes and curtail subsidies.

The shock treatment on prices worked, bringing inflation back to 2 percent a month and inducing a spurt of economic growth. But Mr. Alfonsín could not deliver on plans to curb wage increases for public employees, or to sell state enterprises. Inflation kicked up again. And the traditional bidding war for support in the 1987 legislative elections, all semblance of fiscal discipline disappeared.

Coping With Hyperinflation

An Argentine Family's Losing Battle to Keep Up

By James Brooke

New York Times Service

BUENOS AIRES — With his 2-year-old son squirming on his lap, Guillermo Dietrich pondered how to keep his family afloat in Argentina's rising sea of 12,000-percent annual inflation.

"My wife, my mother and my aunt are the antibodies of hyperinflation," the drawn father of two said, cracking a rare smile.

"Every morning, they pool price information and try to save before prices are marked up again."

Last month, food prices jumped a record 78 percent. Working-class neighborhoods in towns erupted in the worst riots in a decade.

This month, prices are expected to climb 100 percent. With businessmen projecting this year's inflation to be 12,000 percent, the middle class feels pushed to the edge.

"We live day to day," Mr. Dietrich said. "We only pay bills when the money comes in."

The descendants of immigrants from Europe, the Dietrichs grew up to think of themselves as middle class. Mr. Guillermo was a construction foreman. Elida, his wife, is a lawyer.

But in May, inflation, devaluation and underemployment depressed their joint income to the equivalent of \$77 a month.

In this nation of 32 million people, the sudden impoverishment of millions of people like

the Dietrichs has sparked angry debate.

"It can now be said that, with the events of last month, the minimum salary in our country is below that of a miserable ox cart driver of India," the Buenos Aires newspaper Clarín said last week.

In the last five years the number of Argentines below the poverty line increased to 9 million

very insecure.

The Dietrichs said their insurance premiums almost doubled last month to the equivalent of \$18, rent for their four-room apartment is to go up 65 percent this month to \$40, the car stays in the garage because the cost of a tank of gasoline has risen to about \$2.

Months have passed since the Dietrichs bought clothes, went to the movies or had dinner at a restaurant. Last month, they dropped table wine. This month, it may be cigarettes and disposable diapers.

"It is hard to think that we now have to go backward," said Mrs. Dietrich, who reduced her law work to part time to care for their two children.

Monthly pay raises partly shield many Argentines against inflation. Wage payments will soon be made weekly instead of monthly, said Jorge Triaca, the designated minister of labor for the Peronist government that is to take office next month.

But in the last six months, prices rose 565 percent, while the minimum salary increased just 205 percent.

"We grew up with inflation of 7 to 15 percent a month," Mr. Dietrich, 31, said. "But now,

ARGENTINA: Nation's Slow Fall From Prosperity

(Continued from page 1)

dreds of businesses were apparently touched off by a rush to convert assets to dollars before the presidential elections in May.

But the 100 percent inflation in June is only the latest manifestation of a disease that has sapped productivity and retarded economic and political maturation in Argentina for a century.

Those who would blame everything — and thus no one — for Argentina's chronic economic woes believe the source lies deep in Argentine culture.

What else could one expect, argues Moises Ikonofsky, a senior adviser to Mr. Menem, from a nation of displaced Europeans who never earned their initial success and thus had no reason to equate productive work with economic reward?

Some criticize President Raúl Alfonsín, who was swept into office in the restoration of democracy in 1983, for choosing not to risk his personal popularity in an all-out effort to persuade Argentines to sacrifice for the commonweal.

And some economic analysts, including Jeffrey Sachs of Harvard University, believe that international leaders let down the struggling democracy in the last three years by asking far too much in return for debt relief.

V.S. Naipaul, the novelist and essayist with an acute eye for decadence, sees Argentina's problems in its 19th-century origins as a nation of "plunderers" exploiting the vast, rich pampas for cattle and then grain. Mr. Ikonofsky, and many other Argentines, express the same idea less pejoratively.

He likens Argentina's initial successes to Spain's looting of Incan gold in the 15th century and the oil windfall to OPEC nations in the 1970s.

In each case, he says, great wealth was created without much work or investment, leaving little of the social and physical infrastructure needed for development. Big government evolved as the refuge between increasingly organized interests, doling out jobs, subsidies and guaranteed markets.

Juan D. Pervin, the charismatic leader who intermittently dominated Argentine politics from 1946 until his death in 1973, fits into this "corporatist" interpretation as the defender of the previously unrepresented urban working class.

To cement a power base, he increased the bargaining leverage of his union supporters, forcing employers to pay higher wages and provide generous fringe benefits.

Some of the cost was absorbed by large landowners, who were taxed on meat and grain exports. But most was absorbed in the cost of products sold by state-owned monopolies and by private companies protected from foreign competition.

This realignment of power was stable in the first years after World War II because export prices were very high and total income was growing rapidly. But it stuck Argentina with an inefficient industrial sector, whose success or failure turned on its bargaining power with government.

Good luck with export prices did not hold. Argentina did manage to achieve a slow but relatively steady growth, increasing per capita output at about one-third the rate of Japan in the first three postwar decades, but that proved not nearly enough to meet the collective expectations of big landowners, industrialists, blue-collar workers and the growing middle class.

The military takeover in 1976 simply shuffled the power brokers. Economic management grew worse, as the deficits of state-owned enterprises ballooned and the government allowed the rich to recycle tens of billions of publicly borrowed dollars into their own foreign bank accounts.

In 1984, Mr. Alfonsín inherited a \$45 billion foreign debt, a negative rate of capital investment and a series of bargains with interest groups that kept bloated government bureaucracies and inefficient industries afloat at the Treasury's expense.

In early 1985 inflation accelerated toward an annualized rate of 2,000 percent. The fiscal deficit accelerated with it, as Argentines settled tax liabilities incurred months before in badly depreciated currency. Something had to be done, and something was: the Austral Plan.

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CHINA: Beijing Tightens Controls to Travel Abroad

(Continued from page 1)

since the June 3-4 military assault on students occupying Tiananmen Square is now more than 1,300, although the number is almost certainly higher, United Press International reported.

Underlining that the authorities consider even peaceful organizing

to be criminal, the police were shown on television Sunday night loading a truck with photographing machines they had confiscated.

The government issued new attacks Sunday on the United States for taking in the two dissidents, Fang Lizhi, a noted astrophysicist, and his wife, Li Shuxian.

The newspaper People's Daily reported that Qiao Guohua, a standing member of the Communist Party Politburo, had made conciliatory statements about the protesters during a meeting Saturday with senior officials.

Mr. Qiao, who is widely considered to be a leading candidate to become general secretary of the Communist Party, replacing Zhao Ziyang, was quoted as saying that it was very natural that people have different views and doubts about the current situation.

More Criticism of U.S.

The government has fired a fresh broadside against the United States, calling the White House chief spokesman "ridiculous" and implying hypocrisy in Washington's condemnation of Beijing's military repression of student demonstrators, news agencies reported from Beijing.

In almost two weeks of anti-American sentiment in China, President George Bush and other Washington figures have been harshly criticized for condemning the killing of unarmed citizens.

The White House spokesman, Martin Fitzwater, became the latest target as Xinhua, the official outlet for China's Communist rulers, attacked him for lamenting the Shanghai death sentences.

"It is really ridiculous," the agency said, "for the White House spokesman to equate burning railway carriages and mail to applying basic human rights."

China maintains that troops had to be brought to central Beijing two weeks ago to subdue a "small minority of counterrevolutionary hooligans" who had incited other citizens to rebellion.

Only in Britain was there much debate on the future direction of the EC, with Mrs. Thatcher arguing that the Labor Party would increase socialistic tendencies in the community, which would then impose them on Britain.

Mrs. Thatcher's sweeping deregulation in Britain and her opposition to the EC Commission, which she accuses of having a bureaucratic, socialist approach to the single market, have cast her as an opponent of EC developments.

The Labor Party, under the leadership of Neil Kinnock, has come to see the European Community as the best hope for restoring trade union powers and industrial regulations in Britain.

While Mrs. Thatcher was expected to react to the electoral setback with a prompt cabinet reshuffle, British analysts said Sunday that the European ballot was not a reliable guide to how British voters would perform in a national election.

The European Parliament, whose seat is in Strasbourg, France, has mainly advisory powers. But its recommendations for amendments to proposed EC rules are frequently adopted by the community.

Mr. Papandreu and his Panhellenic Socialist party defeated Mr. Mitsotakis and New Democracy in the last national elections, in 1985, and held 154 parliament seats going into Sunday. New Democracy had 111 seats.

But the prime minister had been stung by governmental arms and financial scandals, by a divorce from his U.S.-born wife Margaret and by his flamboyant affair with a woman half his 70 years.

Mr. Mitsotakis, 71, portrayed himself as an advocate of a free-market economy and of stronger ties with NATO, the EC and other Western industrialized countries, including the United States.

He contended that Mr. Papandreu was responsible for the financial scandals shaking the government.

The largest scandal swirls around the collapse of the Bank of Crete, which was owned by the financier George Koskotas, who is accused of stealing \$200 million.

Mr. Koskotas, who is in a Massachusetts jail fighting extradition, has claimed that Mr. Papandreu and members of his party took much of the money to finance the election campaign. The scandal has led to the firing or resignation of eight members of the government, but the prime minister denies wrongdoing.

(AP, Reuters)

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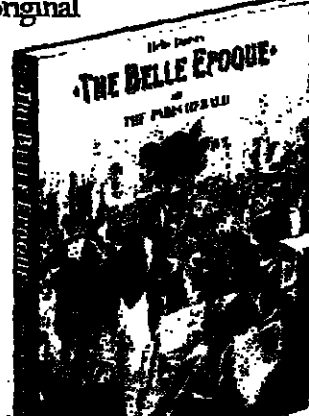
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GREECE: Mitsotakis Leads

(Continued from page 1)

1974; it could also face new elections in the fall with instability in the meantime.

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(AP, Reuters)

ACROSS

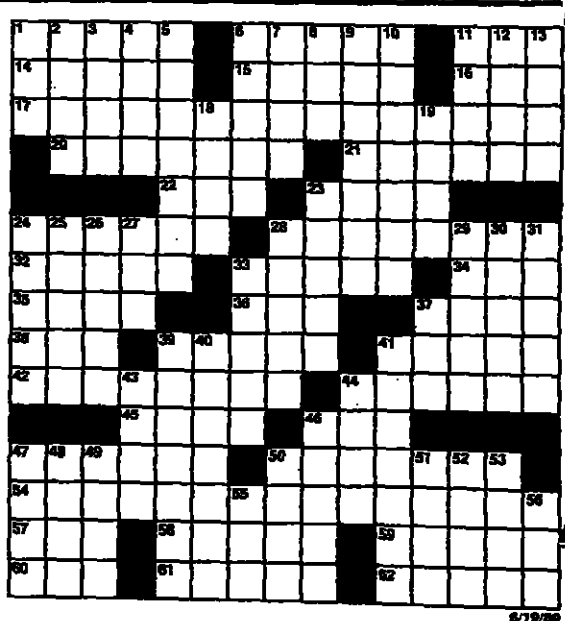
- Word of uncertainty
- Varnish ingredient
- Third degree
- Sing like Bing
- Funeral oration
- tzu, Chinese philosopher
- 1, 2, 3, etc.
- Yellowstone attractions
- Intense with oxygen
- Part of L.A.
- Looped handle
- Attach
- Making braids
- Felt sore
- Slag
- any drop to drink; Colongide
- Had second thoughts
- Anonymous Richard

DOWN

- DC doubled
- To — and a bone
- Kipling

Solution to Friday's Puzzle

BIS DECI AMPERE
ONT ELON SEEDER
OVERALLS TANGLE
SERENADE ANNE
TREAS CAT SAWER
STOP ROMAN MISO
CASTOFF LOOSEST
ANTONIO BKS
ITAL TREES RATS
NINES TVA SABOT
ORIANE NEONATAL
RENTIER CROC ELL
CAIGERS ESME SSA



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3 Time long past

- Text
- Isolated
- Brings up
- Building additions
- Nero, to Agrippa
- Tropical American lizards
- Waterloo
- Nolo contendere, e.g.
- Hind's mate
- Medicinal amount
- Broadway brighter
- Sassy kid
- Fugard's 'A' Lesson From
- Unit of capacitance
- Keen
- Page
- Turner or Knight
- Haughty
- Bayou
- Hangman's haler
- Garson of the screen
- Hilps with the dishes
- Marshland
- Pancake pan
- Decked out
- Pul back
- A son of Isaac
- Arid
- Eyeshade
- Fab Four name
- Bone: Comb form
- Opposite of dele
- Penny follower
- Of an age
- Slipped
- Desiccated
- Participial suffix
- High, craggy hill

In Hong Kong, Fading Hope

Beijing Events Lead Even the Optimistic to Seek a Haven

By Coleen Geraghty
International Herald Tribune

HONG KONG — Ronald could never understand why so many of his friends wanted to leave Hong Kong for Canada, Australia or the United States. When the foreign company he used to work for offered him an opportunity to emigrate, he turned it down.

"You are talking to someone who had so much confidence in Hong Kong that I never thought about living anywhere else," said Ronald, who was born here 35 years ago. He left a well-paid accounting job to start his own retail business.

But the events of the last few weeks have shaken the confidence of Ronald, who asked that his last name not be used, and forced him to reconsider his own future as well as that of Hong Kong.

The Tiananmen Square violence by the Chinese Army against pro-democracy students has devastated this British colony, which is to revert to China in 1997.

Prosperity still reverberates in the rumble of jackhammers, the roar of traffic and the rustle of money changing hands. But there is an undertone of desperation — the sound of people trying to make arrangements to get out.

Consulates in Hong Kong have been besieged by visa inquiries in the last two weeks. Since the Chinese Army attacked students and civilians in Beijing on June 4, the normal supply of visa applications at the Canadian Commission has been snapped up before 8:30 A.M.

More than 1,700 visa inquiries were filed with the Australian Commission in a single day last week, 15 times the normal rate.

The exodus of residents from

Hong Kong began long before China's crackdown on political dissent, but it has stepped up in recent months.

A poll commissioned last month by the territory's leading English-language newspaper, South China Morning Post, found that 33 percent of those questioned were considering emigrating before 1997.

The survey found that 43 percent of those who planned to stay in Hong Kong had considered the alternative but rejected it primarily because of lack of money. Emigration consultants say many of those people are now scrambling for foreign passports.

"Many families I know hope to send one or two of their children to study in a foreign country and gain entry that way," said Andrew, a Chinese journalist who, like Ronald, asked that his last name not be used.

"Only a small number of people can afford to go as business emigrants," he added, referring to a type of visa offered by many countries to people who agree to invest \$250,000 to \$400,000 in specific business enterprises.

Andrew's parents would like to leave Hong Kong, but they do not have the money to emigrate. Their story, he said, is no different from that of a thousand others who fled China in the years after Mao Zedong and the Communists won control of the country in 1949.

Forced into hard labor and suffering from malnutrition, Andrew's family joined the wave of refugees pouring into Hong Kong. They were not among the families who grew rich here, but at least they had enough to eat and the freedom to earn a living.

Now, they believe that even those basic rights are threatened, and they face the prospect of be-

coming refugees once more. The Hong Kong people's dread of life under Chinese Communist rule became apparent earlier this decade when Prime Minister Margaret Thatcher made it clear that Britain would honor the 99-year lease under which China could reclaim parts of Hong Kong in 1997.

As preliminary talks on the transfer of power began, the territory's stock and property markets plummeted.

They recovered only when Mrs. Thatcher and the Chinese leader, Deng Xiaoping, signed a joint declaration under which Hong Kong was given the right to maintain its social, political and economic system for 50 years after 1997.

The Hong Kong Chinese thought this protected them against the worst-case scenario: a refusal by Beijing to honor the guarantees set down in the agreement.

About three and a quarter million residents, primarily those born in Hong Kong, hold British national (overseas) passports. Though these documents do not guarantee a right to live in Britain, local residents believed Britain would provide a refuge for them if China reneged on its commitments.

But over the last month, the British Foreign Secretary, Sir Geoffrey Howe, has indicated that Britain will not admit Hong Kong residents who hold British passports, no matter how arbitrarily the Chinese government behaves.

The people of Hong Kong felt betrayed. "How can the British government, which has played a major role in the development of democracy, give Hong Kong back to Communist China without the



Hong Kong students raised a Statue of Liberty on Sunday to honor Beijing students, whose similar statue was destroyed.

consent of the people?" Ronald asked. "They can give the land back, but not the people."

Hong Kong's senior legislators, Dame Lydia Dunn and Allen Lee, will leave for Britain on Monday to lobby Mrs. Thatcher and the foreign secretary on behalf of overseas passport holders.

At the same time, several local groups are mounting press campaigns in Britain to press for entry into Britain, and the Hong Kong governor, Sir David Wilson, has urged the parliamentary Foreign Affairs Committee to recommend

the right of abode in a report on the transfer of Hong Kong to China.

According to most Hong Kong people, the British government's fear that all the three and a quarter million British passport holders would seek to enter the country are groundless.

What residents want is an "insurance policy" against the kind of violence perpetrated by the Chinese leadership in Beijing over the last few weeks.

Elite Beijing Area Becomes Target of Police Crackdown

By Daniel Southerland
Washington Post Service

BELING — For about two weeks, thousands of residents who enjoy the privilege of living in one of Beijing's most elite neighborhoods put up staunch resistance against soldiers seeking to enforce martial law and advance into Tiananmen Square.

Now, as martial law authorities hunt down leaders of the pro-democracy movement, the Fuxingmen neighborhood has become one of the prime targets of the crackdown, which has spread fear and suspicion in China.

The police come into this neighborhood every night, moving from home to home, to search for pro-democracy campaigners, weapons and propaganda, using police and army photographs taken at the time of the revolt in the streets.

What makes this scene extraordinary is that the rebels of Fuxingmen are nearly all related to senior or middle-level Communist Party officials. Despite their connections, they joined the student-led democracy movement, which at its peak in May exploded into a peaceful, popular uprising against the government and its imposition of martial law.

Two foreigners are in a position to talk about what happened at Fuxingmen. One is a Canadian, David Zweig, assistant professor at the Fletcher School of Law and Diplomacy at Tufts University in Boston, who is an expert on Chinese agriculture. Mr. Zweig has Chinese friends who live in the Fuxingmen area, which lies about 5 kilometers (3 miles) from Tiananmen Square.

This neighborhood, said Mr. Zweig, is the part of the city where some of the leading government bureaucrats live. Some among this elite have servants, and their chil-

dren go to the best high schools in Beijing.

But according to Mr. Zweig, these normally self-confident people no longer go out at night, less for fear of bullets than interrogation by the police, who, with army backing, began their search for subversives on June 8.

Another foreigner with friends in the Fuxingmen area is Theodore C.M. Li, a physician and assistant professor with the Georgetown University Medical Center in Washington. Dr. Li, an American of Chinese origin, was visiting relatives in Beijing when the street fighting erupted a little before midnight on June 3.

What Dr. Li has observed is a generation gap. Many of the older residents of Building 22, a 15-story apartment building that houses some of the city's active and retired elite, opposed what the students were doing in the streets, Dr. Li said. But the young people, including many belonging to the Communist Youth League, favored demonstrating for democracy and slowing down the army.

When the army smashed its way down Beijing's main Avenue of Eternal Peace to end the demonstrations, many from this neighborhood helped to erect and guard

barricades to stop the troops from reaching Tiananmen Square.

According to a Chinese who lives here, three sons of top-level officials in the Ministry of Foreign Affairs died when the army opened fire. Altogether, 47 persons died in the neighborhood when the army made its assault.

Even after the main army action, the killing did not stop. Soldiers firing automatic weapons from tanks killed three children and an elderly retired official during one wild run down the avenue.

What kept hope alive in the neighborhood, even after the army attack, was the belief that the army was divided and that some military units had sided with the people in the street. People listened to the Voice of America and it told them that in other Chinese cities, workers and students were still demonstrating.

It turned out that the army was not nearly as divided as the people had thought. With the hard-liners in control of the government and the military maintaining a high profile in Beijing, residents are refusing to talk about what they think, what they feel, what they hope. They avoid the few foreigners still left in Beijing.

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China on Foreigners: Investors Are Good, Journalists Bad

By Richard Bernstein
New York Times Service

BELING — Near the end of the evening news programs here for the last few days, some people identified as "foreign investors" have been shown at meetings with Chinese partners.

The investors express their confidence that after the army's "calming" of the recent "counterrevolutionary disturbance" in Beijing, business can proceed more or less as usual.

The nightly reports reflect one side of a two-part official Chinese attitude toward other countries after the crushing of the democracy movement.

Foreign governments and journalists are

being held up as rumor mongers and meddlers in China's internal affairs who helped fan the disturbances by encouraging protests and then blackened China's reputation by spreading "lies" about the crackdown.

Practically every night, the national news gives a report on a letter or statement received from a citizen some place complaining, in particular, about the Voice of America's reporting on China. The United States has been criticized for harboring the most prominent Chinese dissident, Fang Li, in the U.S. Embassy.

Beyond that, the United States is implicitly condemned by one of the constant refrain of the propaganda machinery,

which calls on all Chinese to oppose "bourgeois liberalism," the political values of the United States and other Western democracies.

But the authorities have apparently also approved what some Western diplomats in Beijing are calling a "propaganda campaign," using unwitting foreigners to convey an impression that the situation in China has returned to normal.

The Xinhua news agency reported over the weekend on deals being negotiated with foreign partners in three provinces, Guangdong, Fujian and Liaoning.

The reports in the government-controlled press agency all make the point that China's policies of openness to the outside

world and of economic restructuring will remain unchanged.

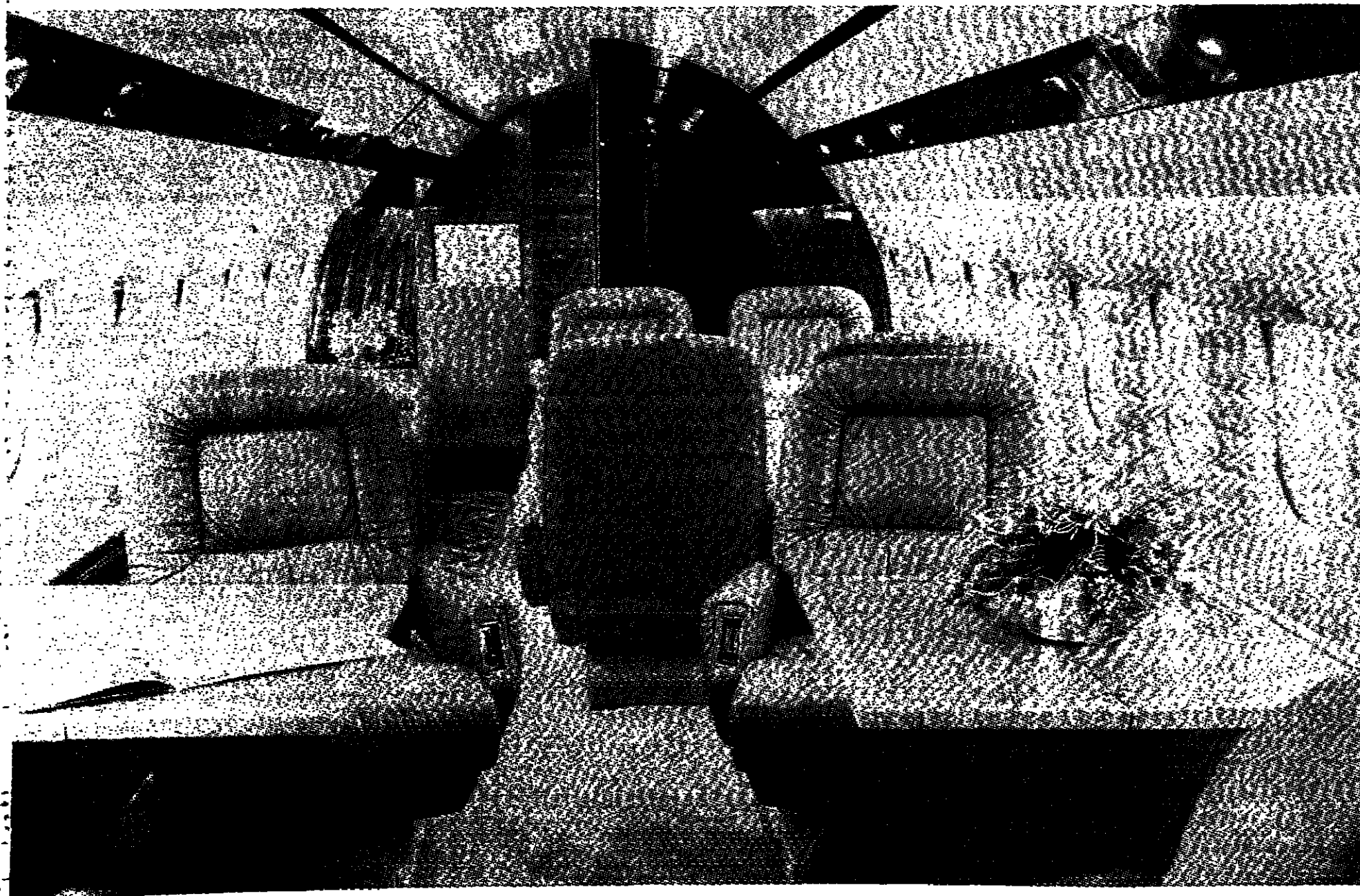
A Western diplomat made the point that China's need to discredit the democracy movement had led the Chinese press to portray it as a creature of foreign interference. The other side of the message reflects the country's continued urgent need for foreign exchange and investments.

There have been hints that China's anger at the West for supporting the student movement has been echoed by an annoyance at countries in the Communist world as well, whose leaders, like President Mikhail S. Gorbachev of the Soviet Union, have expressed some sympathy for the movement.

Here the criticism is veiled, although some official statements are being read by analysts as expressions of disappointment with the Communist bloc. A People's Daily editorial summarized a "profound analysis" of the student uprising by Deng Xiaoping, China's senior leader.

Mr. Deng says that the turmoil was "determined by a large international climate and a small Chinese climate." The phrase has been interpreted to mean that Communist bloc countries like Poland, Hungary and the Soviet Union have through their efforts to accommodate dissent, fostered a spirit of rebellion that had a modest following in China itself.

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U.S. Cites Cuba on Narcotics

Reports Coincide With Drug Arrest

By Julia Preston and Michael Isikoff

Washington Post Service

WASHINGTON — The arrest in Cuba of a top Cuban military officer on drug smuggling charges has taken place as U.S. law enforcement agencies have detected a surge in drug smuggling flights over Cuban territory.

The surge in flights, U.S. officials say, suggests that Cuba is becoming a major transshipment point for cocaine traffic into the United States.

In a front-page editorial, the Cuban Communist Party newspaper, Granma, said that General Arnaldo T. Ochoa Sánchez, a hero of the Cuban revolution, was arrested last week for "making deals" with international drug smugglers and for "possibly cooperating in some drug trafficking operations" near Cuban territory.

Granma said that General Ochoa's activities "may have been the basis for an insidious campaign" by the United States, which has been pointing to drug links in the government of President Fidel Castro for at least seven years.

General Ochoa is believed to be Cuba's most decorated officer. In 1984 he was made a Hero of the Republic, the highest military honor, and was cited for "honesty, unselfishness and purity."

During his 31-year military career, General Ochoa led Cuban forces in a successful campaign in Ethiopia in the late 1970s, served for two years as commander of the Cuban military advisers in Nicaragua after 1983 and recently was a top officer of the 50,000 Cuban troops in Angola.

"Cuba had no better soldier than this man," said professor Jorge Domínguez, an expert on Cuban affairs at Harvard University. "He was a symbol of victorious war."

The Granma editorial, which can be taken to reflect the views of Fidel Castro and his brother Raúl, the defense minister, said that General Ochoa had also been accused of stealing and wasting public funds and foreign reserves, and of corrupting junior officers. It suggested that the general had been involved in illicit trading of sugar and other goods in Angola. He will face a military tribunal.

Also arrested were Brigadier General Patricio de la Guardia Font and his twin brother, Colonel Antonio de la Guardia Font, as well as Lieutenant Colonel Alexis Lago Arocha and Major Amado Padron Trujillo, all members of the security police forces of the Interior Ministry. Also detained were two members of General Ochoa's personal staff, Colonel Antonio Rodríguez Estupinan and a captain.

The editorial said that General Ochoa's drug activities were "without precedent in the history of the revolution."

His ouster is likely to be a severe blow to the morale of the armed forces, and it removes from the chain of command an officer who might have one day succeeded Raúl Castro as armed forces chief.

Granma denied that the military officers were plotting against the government but warned that moral treason "always leads sooner or later to political treason."

With the roundup, the government acknowledged for the first time that there was corruption at its highest levels. The drastic housecleaning appears consistent with the purist revolutionary policies that Mr. Castro has pursued.

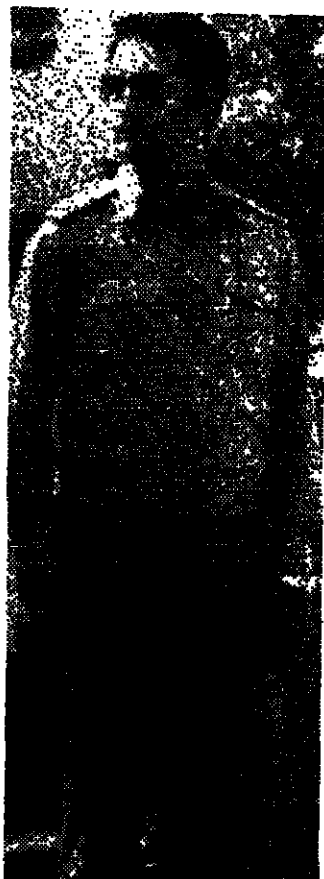
U.S. officials say that since February 1988, they have recorded 63 suspected drug flights over Cuban air space, with many of those planes dropping cocaine loads to smugglers operating in Cuban territorial waters.

"At this moment, I would say this is our greatest threat in south Florida," said Patrick O'Brien, director of enforcement for the U.S. Customs Service in Miami. "They are air dropping in Cuban waters, and we can't pursue the planes when they go back over Cuba. The guy is home free."

Vatican Beatifies 2 Italians

Reuters

VATICAN CITY — Pope John Paul II on Sunday beatified an Italian bishop who worked with the poor and an Italian nun who helped improve education for women. At a Mass in St. Peter's Square, the beatifications of Antonio Lucci and Elisabetta Renzi were the penultimate steps in the Roman Catholic process toward sainthood.



General Arnaldo T. Ochoa Sánchez, a hero of the Cuban revolution, was arrested last week in Cuba for "making deals" with international drug smugglers.

U.S. Said to Get Noriega Bank Deposit Data

Washington Post Service

WASHINGTON — U.S. Customs Service officials have obtained bank records of General Manuel Antonio Noriega showing that the Panamanian leader deposited tens of millions of dollars in a Luxembourg-based bank while he was reportedly receiving payoffs from the Medellín cocaine cartel in Colombia, well-placed sources said.

The records at the Bank of Credit and Commerce International (BCCI) were seized by British authorities in London after BCCI and several bank officers were indicted last October by a U.S. grand jury in Tampa, Florida, on unrelated drug-money laundering charges.

Those records were turned over to Customs officials in the last few days and are now being reviewed for possible use in the Tampa court case. NBC News reported last week that the documents show General Noriega had deposited at least \$50 million in the accounts since 1982.

Officials for Customs and BCCI refused to comment about the bank records last week.

Rights Group Revivified by Bush Factor

By Sandra Torrey

Washington Post Service

MADISON, Wisconsin — The American Civil Liberties Union boasts 80,000 new members these days, with checks coming in so fast and furiously that it can hardly keep up with the hungry recruits.

The newfound prominence, the group's officials agree, is largely a result of an unlikely benefactor — President George Bush, whose campaign attacks last fall on Michael S. Dukakis as a "card-carrying member" of the union gave an unexpected boost to the 69-year-old organization.

"I have to admit that I am jealous," Arthur Kropp, president of People for the American Way, said last week on the eve of the union's biennial conference. "I only wish that President Bush had singled us out."

But among members, its emergence for the first time as an election issue is viewed as a mixed blessing. With its self-proclaimed goal of protecting the individual liberties guaranteed by the Bill of Rights, the organization is at a "pivotal point" in its history and in the history of the country, its executive director, Ira Glasser, told the assembly last week.

Many believe that in the short run the attacks by Mr. Bush revitalized it, rallying supporters to its cause. But at the same time they worry that the assault could scare off the next generation of political leaders, fearful of being tainted by association with the union. Or it could leave the public so alienated that the rights group's often-uphill climb on issues could grow even steeper.

Nagy Rites Vex Some in Bloc

By John Tagliabue

New York Times Service

WARSAW — Hungary's hard-line Soviet-bloc neighbors have bitterly chastised the Budapest government for the solemn reburial Friday of Imre Nagy, the prime minister who was executed for his role in the 1956 uprising.

In a statement Saturday listing virtually every offense in the traditional list of sins against communism, the Romanian government said the funeral service betrayed "anti-socialist, anti-Romanian, nationalist-chauvinistic and revisionist manifestations."

On Friday, a senior Czechoslovak leader assailed Hungary for countenancing what he called the resurgence of "counterrevolutionary forces."

Jan Fojtik, Prague's chief ideologist, said that "certain circles in the West would like to see in the reburial of the former Hungarian prime minister, Imre Nagy, a symbolic burial of socialism in that country," according to the official Czechoslovak news agency.

Mr. Fojtik, addressing party regulars in Bresov, in eastern Czechoslovakia, said there were strong signs of resurgent "anti-socialist forces" in some Warsaw Pact countries. "This is at present taking place in Hungary," he added.

Though Mr. Fojtik named only Hungary explicitly, he seemed also to be alluding to Poland, which along with Hungary numbers among the Soviet-bloc countries most open to change.

Though the protests were prompted by the reburial of Imre Nagy and four associates, who were hanged and their bodies put into unmarked graves after Soviet tanks put down the 1956 uprising, they seemed also to reflect growing nervousness among hard-line Soviet-bloc regimes over the pace of change in Hungary, Poland, and perhaps even the Soviet Union.

Referring to the Soviet-led invasion 21 years ago that crushed the brief moment of Czechoslovak liberalization that came to be called the Prague Spring, Mr. Fojtik said:

"Experiences from 1968 urge us not to yield to illusions. Under the banner of the regeneration of socialism there are, in many cases, also socialism's opponents, the counterrevolutionary forces."

But the most bitter attack came from Bucharest, where the regime of President Nicolae Ceausescu has been among the most resistant to political and economic changes promoted by Mikhail S. Gorbachev, the Soviet leader.

In the statement released Saturday that was handed earlier at the Romanian Foreign Ministry to Hungary's ambassador in Bucharest, Pal Suts, the Romanians asserted that the funeral rally had "turned into a manifestation clearly fascist, anti-socialist in nature, aimed against the Hungarian Socialist Workers' Party."

The statement said the rally also violated "socialism and communism and the Warsaw Treaty."

It said that the funeral, which tens of thousands attended, "ran counter to the Helsinki Final Act, to the interests of peace and security in Europe, and to the very interests of peace and quiet of the Hungarian people."

The Romanian attack appeared fueled in part by a deep estrangement with Hungary in recent years over Romania's harsh treatment of its Hungarian minority.

Pope Bids Beijing Reflect on Events

Reuters

VATICAN CITY — Pope John Paul II urged Chinese leaders on Sunday to respect truth, justice and liberty, and said he hoped that the suffering and violence of the last few weeks will not have been fruitless.

Speaking in a crowded St. Peter's Square, the pope said he had been deeply affected by reports and pictures of events in China; he asked that God "bring light to those who guide the fate of that great nation so that they will not lack the necessary wisdom in the search for the common good, which has as its basis respect for truth, justice and freedom."

The address was the pope's strongest public condemnation of the recent crackdown on the pro-democracy movement in China.

Ozal Chides Bulgarians On Refugees

Reuters

ISTANBUL — Condemning "a black stain" on Bulgarian history, Prime Minister Turgut Ozal said Sunday that he would welcome talks on regulating a mass exodus of ethnic Turks from Bulgaria.

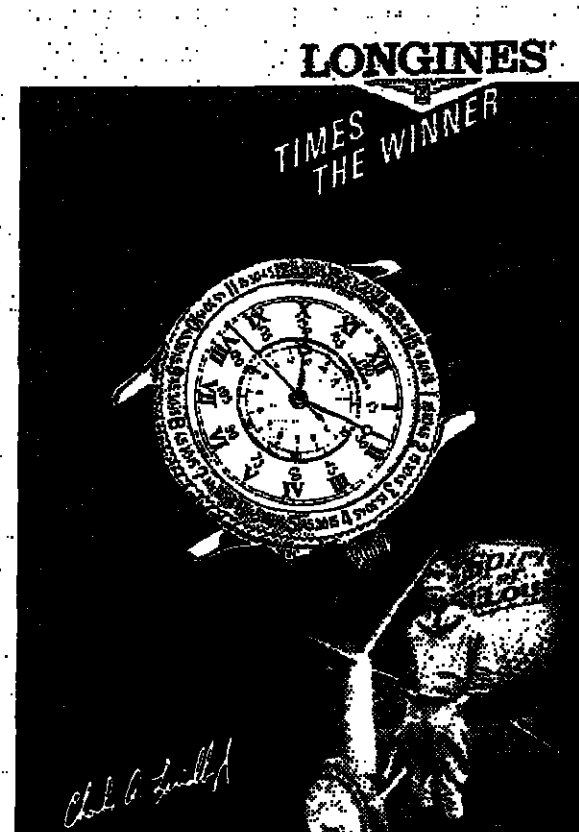
"The tent camps on the border displayed the plight of a people similar to those escaping war," Mr. Ozal said after visiting the frontier. "This is a black, black stain on Bulgarian history. Repression cannot and will not go unpunished."

Mr. Ozal, who said that 37,000 to 40,000 ethnic Turks had fled or been deported from Bulgaria during the previous three weeks, said he still hoped for a humanitarian solution through political pressure.

An accord should specify how many ethnic Turks would be sent over and solve the question of split families, belongings, retirement benefits and the situation of those who were left behind, he said.

Ankara says that at least two million ethnic Turks living in Bulgaria have been subjected to an assimilation campaign since late 1984.

Mr. Ozal, saying the ethnic Turks would be mostly employed by municipalities, said that it was unlikely they would accept housing offers from the breakaway Turkish Cypriot government.



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Published With The New York Times and The Washington Post

Shame of Sudan

Peace is an idea whose time is overdue in Sudan, a huge, starving land bled by six years of civil war. In February the military told Prime Minister Sadiq al-Mahdi to make peace or resign. The resulting results are peace talks and an agreement to let food supplies through war zones. But much of this is a mirage, part of a public relations battle by both sides.

Without international pressure, Sudan could again reach last year's appalling toll of 250,000 famine deaths. Fortunately, Washington is finally paying attention.

Sudan's miseries are man-made. A weak, chaotic government pretends to control an area twice Alaska's size with 25 million people, 115 languages and 42 political parties. When Prime Minister Sadiq al-Mahdi imposed harsh Islamic laws in 1983 to placate fundamentalists, a Christian-led rebellion broke out in the south. Its leader, John Garang, demands autonomy, abolition of Islamic laws, more aid for his region under a new constitution and the voiding of military pacts with Libya and Egypt.

The trouble is that both leaders preside over divided coalitions and are expert at verbal evasions. When the prime minister talks of suspending Islamic laws, Colonel Garang replies that this isn't enough; they must be scrapped everywhere and for everybody, as he reiterated during a U.S. visit last week. With the military advantage tipping

to the Sudan People's Liberation Army, few expect much to happen at low-level peace talks now under way in Ethiopia.

Similarly, both sides have blocked or hijacked food relief to famine-stricken areas. Hence the skepticism when government and rebels promised in March to respect a United Nations "corridor of peace." Some food got through, but trains took six days to go 120 miles. Barges carrying food somehow never arrived. Truck convoys were seized by armed militias. For this, Khartoum seems most to blame.

The United States and the United Nations are now giving priority to ending the war and feeding the starving.

The State Department has abandoned the Reagan administration attitude of saying nothing that might offend a regime regarded as a strategic ally. Herman Cohen, the new assistant secretary for African affairs, has already visited both Khartoum and the rebels. A first-class professional, James Cheek, has been chosen as envoy to Sudan.

There's thus a chance for the Bush administration to make the same kind of mark in the Horn of Africa, and on its interlocked civil wars in Sudan and Ethiopia, that the Reagan team made in southern Africa. The agency of the victims cries out for determined diplomacy.

—THE NEW YORK TIMES.

A Wage Compromise

President Bush's veto Tuesday of a bill on the minimum wage did more than stop an increase to \$4.55 an hour. He impelled Congress toward a stunning public policy triumph. Mr. Bush welcomes Congress to join in a grand compromise: Expand tax credits for poor families in exchange for a small increase in minimum wages. Exactly right.

The bill would have raised the minimum wage to \$4.55 an hour in three years and created a 60-day sub-minimum wage for first-time jobholders. Mr. Bush favored \$4.25 an hour with a sub-minimum wage that would apply to all new hires for as long as six months.

Higher minimum wages sound humane but in practice are an ineffective way to help workers in need. First, the benefits are sprinkled across families both rich and poor. Most minimum-wage workers are members of middle- and upper-income families.

Second, low-income families bear too much of the costs. When forced to raise wages for low-paid jobs, employers will hire fewer workers. The number of lost jobs will be relatively small. But disadvantaged teenagers desperately trying to establish careers will be among the victims. And low-income families will be forced to pay higher prices.

The truly practical way to help poor workers is for the Treasury to send a check to supplement their wages. A refundable tax credit of this type, called the Earned Income Tax Credit, exists. The credit is small and unrelated to family size. The monumental aspect of Mr. Bush's veto message is his invitation to Congress to improve it.

Tax credits are targeted to the low-income workers who most need them. Only families with low earnings qualify for the credit. And the cost is borne by the taxpayers. The poor are exempt; everyone else pays according to income. Tax credits do not raise wages or

prices. So workers are not dismissed, and consumer prices are not raised.

Despite the obvious virtues, it would be expensive to expand the tax credit so that it gives the necessary boost to low-paid workers while preserving incentives for the near-poor to keep working. The cost can be lowered if minimum wages are first raised. In the current budgetary climate, the best policy would be to combine a slightly higher minimum wage with an expanded tax credit.

Congress and Mr. Bush can make another signal improvement during upcoming negotiations: Eliminate the sub-minimum "training" wage. Minimum-wage workers receive virtually no training. So a sub-minimum wage, reduced because that supposedly offsets training costs, is pure pretense.

Pretense or not, a sub-minimum wage provides a dangerous incentive for companies to substitute inexpensive new workers for comparatively expensive older workers. Female heads of households earning near the minimum wage are especially vulnerable. It would be perverse to pass a law that risks taking jobs from poor single mothers and handing them to middle-income teenagers. Why take such risks?

Congress's minimum wage bill was wrong because it pursued the wrong remedy for the problem of low pay. Mr. Bush's alternative minimum-wage package was wrong because it provided too little relief and threatened the jobs of some older workers. Now there might come a triumphal compromise. By expanding the tax credit, Congress can avoid raising minimum wages so much. Mr. Bush need not have to insist on a sub-minimum wage. And the poor people who most need help would get it.

Congress can now ensure a rare outcome: Everyone wins.

—THE NEW YORK TIMES.

Hungary: A Good Start

Hungary's Communists have now opened negotiations with the emerging opposition parties over an election law. It is another remarkable stage in the political evolution of Eastern Europe. Under this law, the Hungarians expect to hold open elections by the middle of next year.

In Poland it was the emergence of a powerful opposition movement, Solidarity, outside the law that pushed the government toward the elections held there this month. The process is a bit different in Hungary. There the reform wing of the Communist Party itself is the engine driving the country toward free elections, and the tension between the party's reformers and its conservatives is likely to dominate these negotiations for the present. The opposition comprises nine embryonic parties, none of which has yet gained any great standing in the country. One purpose of the electoral bill now under debate is to provide them with legal status and, not incidentally, financing.

It is the urgent, and widely recognized, need for better economic performance that is pushing Hungary in the direction of democracy. Hungary has been experimenting longer and more extensively than other East European countries with economic decentralization and the rules of the market. The

Hungarians have gone far enough to know that they cannot achieve the kind of economy they want without a parallel movement toward political pluralism. The government is deliberately encouraging and supporting the opposition parties in the hope of bringing the principle of open competition into politics as well as economics.

There are rough passages ahead for the economic changes so crucial to Hungary's future prosperity. After 40 years of communism people have become accustomed to the heavy subsidies of common goods and services. They are accustomed to employment that is secure regardless of performance; the idea that some enterprises might be allowed to fail and jobs evaporate is not a welcome one. Even before the upheaval in China, the Hungarian reformers understood that their plans were not likely to get much further without generating strong political reactions. The purpose of the election law will be to keep the reactions peaceful and to provide legitimate representation for the inevitable fears and grievances.

Hungary is only at the beginning of the great enterprise of changing the fundamental nature of its government. But that beginning is a promising one.

—THE WASHINGTON POST.

Other Comment

Distorting the Truth

It has now become a crime in China to repeat even what the regime itself had acknowledged until a few days ago, that hundreds of protesters died in Tiananmen Square. The official story instead has become that no one died, and that all evidence to the contrary — including videotape and eyewitness accounts — "distort the truth." A number of foreign correspondents who were taken on a tour of the square heard the same thing. The burned vehicles and debris that were the visible signs of conflict are

gone. But what of the bloodstains and bullet holes that can still be plainly seen? "There was no such thing as bloodshed on Tiananmen Square," General Li Zhiyong insisted to the reporters. Can China's rulers really believe that anyone is fooled by this effort to brazen things out? The world knows what it saw and heard, and knowing is not inclined soon to forgive. That is bad news for China, not alone for the political isolation it imposes but particularly for the economic penalties it encourages.

—Los Angeles Times.

Fang's Netherworld: Light a U.S. Candle

By Orville Schell

SAN FRANCISCO — Deng Xiaoping and Li Peng have begun searching for ways to divert attention from the carnage they wrought in Tiananmen Square. They have singled out the brilliant astrophysicist Fang Lizhi, China's best known dissident.

Mr. Fang, anticipating the mass arrests now being carried out, took refuge with his wife and son in the U.S. Embassy in Beijing. To its credit, the Bush administration has refused China's demands that they be surrendered and has asked that the Chinese allow them to go to a third country.

The Chinese government hopes to convince the Chinese, if not the world, that Mr. Fang was the hand in the glove of the student protest. Accordingly, it has branded him as the "arch-enemy of the nation and the Chinese people" and, for having allegedly disseminated "counterrevolutionary propaganda," has issued a warrant for his arrest.

Mr. Fang repeatedly expressed support for the student protest. But he feared that if he became visibly associated with it, the government could more easily label the protest as his creation. Thus, he eschewed any direct involvement.

Moreover, the Deng government, by accusing the United States of having "interfered in China's internal affairs" in granting Mr. Fang refuge, seems to be trying to whip up anti-American sentiment that has always been just beneath the surface of Chinese society.

As for the U.S. government, Mr. Fang's presence in the embassy raises a difficult diplomatic question. Mr. Bush has been extremely slow to defend democracy activists in China, much less to criticize Mr. Deng and his government as repressive.

When he was in Beijing in February and the secret police barred Mr. Fang from attending his favored barbecue, Mr. Bush made no immediate official protest other than expressing "regret." When demonstrators swept through the streets of Beijing this spring, Mr. Bush offered few words of support and no criticism of the government's refusal to make concessions to their reasonable demands.

Only after thousands had been killed did he finally "deplore" the situation. And only when a groundswell of support for sanctions against China had begun to build in Congress did he announce that military cooperation would be restricted. Still, he has refused to hold Deng Xiaoping or other leaders personally accountable for what happened.

What has been most surprising about the official U.S. response to the pro-democracy events in China is its timidity. After waging 40 years of costly Cold War in defense of the "free world," American leaders seem to have lost their ardor now that the largest Communist country has spontaneously produced an extraordinary independent and nonviolent movement for freedom of expression.

This double standard is disturbing to many Americans. More important, it has begun to alienate younger Chinese who, in recent years, had turned toward the United States for political inspiration and who will now become China's new political leaders.

It is not too late. Even if the U.S. government does not take precipitous steps such as recalling its ambassador, levying trade sanctions or severing diplomatic relations (although these should be considered), it can still put itself irrefutably on the side of democracy and this new genera-

OPINION

Reality Prevailed In Bonn

By William Pfaff

PARIS — Mikhail Gorbachev and Chancellor Helmut Kohl talked about many things, but not about what other people feared they would talk about — German unification and a united Germany's reconciliation with Moscow.

Mr. Gorbachev attempted no seduction; Mr. Kohl offered no hint of submission. Forecasts by American, French and British commentators of German opportunism were proven wrong. But then they never made sense. Why would the Soviet Union want Germany reunited? Both countries have enough trouble now.

The affair is more complex. West Germans imagine a new Europe, but not one that rests on betrayal or reversal of alliances. Its essential qualities derive not from the discredited 20th Century but from the 10th Century.

There is a German vision of Europe seriously different from those ideas that have dominated Western discussion. Note what the Soviet-West German joint declaration visit actually said. It talks about Germany's connection with the West; it describes the "order of European peace or common European house" which the two countries promise to construct as one "where the United States and Canada equally have their place."

German unification is nowhere mentioned. The statement insists on the right of each country "freely to choose its political and social system." There must be "unqualified respect for the principles and norms of international law, notably a respect for the right of peoples to settle their own affairs."

The differences between East and West in political and social order and "systems of values" do not, the declaration said, constitute an obstacle to a policy for the future in which such frontiers "are surpassed." At the same time, "the priority of international law must be guaranteed in internal as well as international politics."

This emphasis on the autonomy of states defends the survival of the German Democratic Republic but also defends what Hungarians and others today are doing "to choose (a different) political and social system." West German reports say this is to be taken as Soviet renunciation of the so-called Brezhnev doctrine.

Statements are only statements and can be discarded. They nonetheless contribute to the evolution of events, and events are facts and make facts.

Talk and thought about Europe's future in the United States, Britain and France have reflected the natural assumptions of societies whose historical experience is of strong central government. The German experience, before 1870, was different. It was of a large, complex federation of small and large sovereignties — of limited sovereignties, since each owed ultimate fealty to the Holy Roman Emperor.

Bismarck's system — a centralized Reich dominated by Prussia — lasted less than a century. The postwar West German system decentralized the individual states more powerful and the central government weaker than in any other Western democracy except Switzerland.

The West Germans' vision of the European Community reflects this federalism. It is far from either the European "superstate" imagined, and feared, by Margaret Thatcher, or the ambitious Europe most Frenchmen have in mind. It is a vision of a larger European system in which Eastern Europe's nations could be absorbed without violent discontinuities. The German Democratic Republic, under new leadership (inevitable within two or three years), could follow Hungary and Poland into a vaguely defined "association" with the European Community, with no need for German unification as a condition for membership.

The vision is one of association and assimilation rather than formal incorporation — open to links with the United States and Canada as related and friendly sovereignties with an acknowledged historical and strategic interest in what Europe becomes.

This model of a larger Europe, of multiple national sovereignties within an imperfectly defined European sovereignty, served Europe for a long time. The Holy Roman Empire was not all that happy, nor all that much of a success. But it provides a precedent not without interest and relevance today, offering solutions to otherwise insoluble problems.

Above all it is important because many West Germans think it is important.

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dents died for and what China's new generation of democrats believe in.

Trapped as he is in a diplomatic netherworld, Mr. Fang will serve as a constant reminder that U.S.-Chinese relations cannot, and should not, be normalized until the Chinese government either makes amends for its barbarity or falls from power.

The writer's works include "Discos and Democracy: China in the Throes of Reform." He contributed this comment to The New York Times.

Guildhall, With Orwell and Reagan

By David S. Broder

LONDON — Although it has been only five months since he left the White House, there was unmistakable nostalgia surrounding Ronald Reagan's visit here. Watching him stroll through the streets, hearing again the whispering voice and marveling once more at the old actor's way of delivering a line, one realized that a void he has left in our public life.

George Bush may be more in touch with day-to-day government, but no one is as tuned as Reagan to the emotions which major events — like the upheaval in China and its bloody repression — stir in people. After hearing "statemen" on both sides of the Atlantic mulling their diplomatic moderation "regret" at events in Beijing, it was stirring to hear Mr. Reagan's rebuke: "You cannot massacre an idea, you cannot run tanks over hope. You cannot riddle people's yearning with bullets."

George Orwell was the ghostly commentator on the theme of Mr. Reagan's Guildhall lecture, that the communications revolution does tyranny to extinction. Or as Mr. Reagan put it, "The biggest of Big Brothers is helpless against the technology of the information age."

Orwell, who invented Big Brother on the pages of "1984," thought otherwise. He had his Stalin-like dictator using imaginary electronic marvels, not only to propagandize his people but to observe and report on their private activities and thoughts. He

saw television and computers as instruments of subjugation, not of liberation as Mr. Reagan would have it. The boys' world of mass media, he said, would not have to hunt hard to find supporting evidence. Satellite television not only showed the world what was happening in Tiananmen Square, they beamed back to the demonstrators the evidence of the worldwide support and sympathy their bravery evoked.

Broadcasts and teletexts and computer chatterings do leap national boundaries, making real Mr. Reagan's poetic remark that "electronic beams blow through the Iron Curtain as if it were lace." But it's a long leap from that observation to the conclusion that greater freedom is the result.

It is a tragic likelihood, for example, that tapes of the television coverage of the Tiananmen demonstrations are now being used by Beijing security men to identify and hunt down demonstrators who otherwise might have escaped into anonymity.

It cannot be forgotten that underground radio stations beaming messages from a Paris suburb, which were then dubbed onto hundreds of tape recorders and passed from hand to hand in the marketplace, were a key instrument in the revolution that brought Khomeini to power in Iran.

Mr. Reagan's assertion that "the communications revolution will be the

greatest force for advancement of freedom in the world" is really no more than an inversion of the Marxist proposition that the "means of production" inevitably determine the character of the political regime. Two generations of history since the Russian Revolution have produced a near-universal acknowledgment of the error of Marx's analysis. But, sadly, they do not prove the converse true.

The technology of communications, like the technology of warfare or even of medicine, can be employed for good ends or evil, depending on the character of the men and women at the controls. For every instance of high-tech messages undermining a dictatorial regime, there are examples of governments using computer files and television propaganda as instruments of social control.

As a political reporter in the United States, I have been struck by the startling difference in political cultures from one state to the next, even in a time when the mass media supposedly are creating a homogenized America.

Politicians win office in one state who could not conceivably be elected across the line. And they retain office in one state despite the exposure of practices that would certainly defeat them in a neighboring jurisdiction. Louisiana and Arkansas, to take but two examples, are about as different as two states could be.

What is true of states is even more true of nations. To move from Britain



By BELLOPLOS, La Jolla, Calif. City. C.W. Syndicate.

to Ireland and back again, as I did recently, is to shift perspectives on dozens of major questions.

There's a free flow of information; the same television stations and newspapers are available. But history, culture and religion put a different stamp on the politics.

These are all free societies, of course, and Mr. Reagan was arguing only that communications produces freedom, not uniformity of views.

But if even open societies wrap their citizens in a culture so strikingly resistant to outside influences, so much more can closed societies smother the supposedly irresistible effects of communications technology.

Ultimately, human institutions are changed — for better or worse — only by human efforts. Technology is the servant, not the master, of change.

The Washington Post.

START Talks: No Reductions for Reductions' Sake

By Jan M. Lodal

ROCKVILLE, Maryland — After a six-month suspension, the Strategic Arms Reduction Talks will resume Monday amid high expectations generated by a series of dramatic moves in arms control. But without modifications in the U.S. negotiating position, certain provisions of the START agreement could violate the Hippocratic Oath of arms control: a treaty should do no harm.

The harm could be done if George Bush continues Ronald Reagan's emphasis on the unachievable goal of getting rid of all nuclear weapons. This emphasis could channel weapons modernization in directions that undermine stability, making war more likely.

Nuclear stability depends heavily on large and diverse nuclear arsenals in both countries that make a disarmament first-strike impossible. While the existing START pact would not immediately endanger stability, it could

set precedents that might make future agreements more difficult to reach. Two relatively small changes in the U.S. negotiating stance could largely eliminate those problems.

First, the existing START limits of 1,600 on weapons launchers should apply only to systems carrying multiple nuclear weapons — either missiles with multiple warheads or bombers with cruise missiles — and not to single-warhead missiles.

As agreed to date, START will allow each side 4,900 warheads. The greatest stability would be achieved by spreading the 4,900 warheads over an equal number of "rain points." Namely, each side would have 4,900 warheads and 4,900 launchers. That is because offensive weapons are not perfectly reliable, and it would take two or more warheads to destroy each single-warhead weapon. Since

the attacker would use up more weapons in a strike than it destroyed, it would be left with a less favorable balance of forces after the attack. As a result, there would be no incentive to attack in the first place.

By limiting launchers to 1,600, the START treaty would prevent the two sides from spreading their 4,900 warheads over an equal number of launchers. To avoid this, the treaty should exempt single-warhead missiles from the 1,600 limit while simultaneously lowering the ceiling on launchers with multiple warheads, perhaps to 1,000. Taken together, the two measures would produce a strong incentive to eliminate multiple-warhead missiles and build new single-warhead missiles.

The United States also should reconsider its position on mobile intercontinental-range ballistic missiles. Until now, Washington has insisted that all such systems be banned. Yet, the United States is continuing to develop two mobile systems: a rail-mobile MX system, which would closely resemble the Soviet 10-warhead rail-mobile SS-24, and the mobile Midgarden, much like the Soviet single-warhead SS-25.

Both U.S. programs are in trouble in Congress. The rail-mobile MX is particularly threatened. Many in Congress oppose both the 10-warhead MX missile and the idea of moving nuclear weapons on in times of crisis. The rail-mobile MX will have a hard time surviving budget pressures, even if it is permitted by START.

There is a strong case to be made for banning large, mobile, multiple-warhead missiles, such as the SS-24, while dropping the proposed ban on single-warhead mobile ICBMs. Single-warhead mobile missiles, which would closely resemble the Soviet 10-warhead rail-mobile SS-24, and the mobile Midgarden, much like the Soviet single-warhead SS-25.

Will the Soviets give up their deployed, 10-warhead SS-24s? As part of the bargain, the United States

would give up its comparable MX. Moreover, if Moscow has no plans for pre-emptive attacks against U.S. military forces, as it professes, then it has no need for the missiles; the single-warhead SS-25 can provide an effective, land-based deterrent.

Mikhail Gorbachev has shown surprising flexibility in arms control. The Bush administration should not respond by abandoning the work done to date on START or adhering rigidly to past positions. Beginning the negotiations anew, as Jimmy Carter did when he abandoned Gerald Ford's Vladivostok agreement, would set back, perhaps for years, the prospects of a START agreement.

But with a small number of adjustments, none of which should be strongly objectionable to the Soviet Union, START's goal can be shifted away from the idea of reductions for reductions' sake and back to nuclear stability. And this can be done without delaying a new agreement.

The writer, president of Inteltek Inc. and a former director of program analysis for the National Security Council, contributed this to The New York Times.

100, 75 AND 50 YEARS AGO

1839: Belgian Agitation

BRUSSELS — The agitation against the Conservative Cabinet is as widespread as ever, and assumed a new phase today (June 18), when Mr. Janssen, the recently elected Liberal Deputy for Brussels, took his seat in the Chamber. After having taken the customary oath, he delivered a stirring speech, declaring that his return to the Parliament was proof that the country was disgusted with its present Government. The speaker also referred to his election as having avenged the outrage done to the honor of the nation. This Mr. Janssen called upon the King to dissolve the Parliament. "As in the days of Louis XVI," he said, "we have a monarch who is set against dishonest practices and will assuredly grant our request."

1914: Invasion Planned

PEKING — The British Legation in Peking was today (June 18) informed by the Chinese government that Sin-

gapore Chinese, numbering 30,000, intend to invade China. The first portion of these will arrive in three charted steamers which will call at Hong-Kong and Macao and land the forces at Swatow, where 3,000 picked rebels are to await them.

1939: Refugees Arrive

ANTWERP — After spending thirty-five days on the sea in fear and uncertainty, 918 Jewish refugees from the Third Reich walked down the gangplank of the German liner St. Louis here today (June 18) toward freedom and a temporary haven. For three long hours, the liner's human cargo stood silently at the rails while a joint distribution committee, composed of French, British and Belgian representatives, decided on their partitioning. Then the signal was given for the exodus to begin, and a joyous murmur went up from the homeless throng. One man danced with joy as he walked down from the gangplank. Others shouted excitedly.

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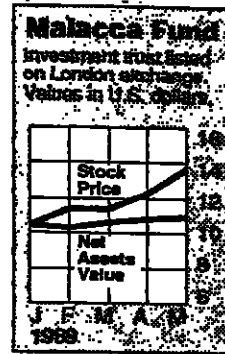


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PERSONAL INVESTING

FOCUS

Jakarta's Bid For Stardom



EXPERIENCED Asian hands — having seen the region's backwater exchanges come in and out of vogue with investors over the years — tend to discount starry-eyed talk of emerging markets. But even the habitually skeptical are saying that Jakarta's latest bid to catch the eye of international investors may succeed.

"Indonesia has been about to emerge for years," observed one cynical analyst. "But this time it may actually happen."

Indonesian officials are hoping that a sudden influx of foreign investors, including major names in fund management, may help hoist the country into the ranks of Asia's newly industrializing economies. Happily for the government, this new-found foreign interest coincides with its program to diversify the economy and deregulate financial markets.

Indonesia's current five-year plan aims for 10-percent annual growth in the nonoil industrial sector, a rate twice that projected for the entire economy. It also shifts responsibility for economic growth from the public to the private sector by liberalizing trade regulations, encouraging foreign investment and creating a larger role for the service sector.

"This is a classic case of foreign mutual funds coming in at the same time the government is changing the laws to open up new avenues of investment," notes Elizabeth Wood, a regional executive director with Merrill Lynch and a specialist on Indonesia.

Last December, Indonesia's tiny stock exchange, known as the Bursa Efek Indonesia, or BEI, surged to a record high of 442 points on its composite index, nearly triple its November level. Advances were ascribed to the government's financial deregulation program, but the more probable trigger was a sudden influx of foreign cash.

Analysts say the investment arm of Banque Indosuez had entered the market in advance of launching the first Indonesian-oriented foreign equity fund. When word of the Malacca Fund — named for the straits between Indonesia and Malaysia — leaked out, other overseas investors began buying. Local speculators joined in, seizing the opportunity for short-term profit.

The market has retreated to around 300 points, but foreign investment interest still runs high. In the last few months, Jardine Fleming launched — through private placement — the closed-end Indonesia Fund, and the Royal Bank of Canada began marketing the open-ended Indonesian Growth Fund.

MOREOVER, foreign brokers such as James Capel, W.I. Carr, First Pacific and Bankers Trust are reportedly interested in establishing Jakarta-based operations now that the government has given overseas brokers permission to form joint ventures and purchase seats on the stock exchange.

This sudden attention is more than the market can handle. Capitalized at just over \$1 billion and with only 24 stocks listed, the market suffers from severe illiquidity, more problematic for foreign investors because many shares are off limits to them.

Jardine Fleming's Simon Hallett estimates that the value of shares available to non-Indonesian investors is equivalent to a mere 10-percent of total market capitalization. This scarcity of shares virtually guarantees that any closed-end fund will be priced at premiums to its net asset value. The Malacca Fund, which is listed on the London exchange, was trading at a 26-percent premium to its net asset value at the end of May. "Effectively, there is no other way to get into this market," Mr. Hallett remarked.

The fund managers themselves have been stilled by illiquidity. Only half the \$25 million raised by the Jardine Fleming fund is currently invested, although Mr. Hallett expects it to be fully invested by the end of this year. The \$35 million Indosuez Malacca Fund was launched with 75 percent of its assets in the Malaysian market and the balance in Indonesia. The

Continued on page 12

Expanding the Boundaries of Private Banking



Barbara Thomas of Bankers Trust's private division.

The Price of Personal Service

Lombard Oiler & Co.
Minimum deposit is \$1 million. No annual management fee. Transaction and administrative fees charged according to Convention of Swiss Banks. Stamp duty assessed on trades.

Neuburger Bank (Switzerland) Ltd.
Minimum deposit is 1 million Swiss francs. Annual management fees start at one percent for 1 million Swiss francs and decline to 0.25 percent for 10 million Swiss francs or above. Transaction and administrative fees charged according to Convention of Swiss Banks. Stamp duty assessed on trades.

Courts & Co.
Minimum deposit is \$500,000. Fees are one percent of assets managed annually and cover management and administration of assets. Other charges depend on services required by customers.

Parsons & Co.
No specific minimum requirement, but generally prefer deposits of \$250,000. No annual management fee. Transaction fees charged according to Convention of Swiss Banks. Fees are charged for transactions greater than 2 million Swiss francs. Stamp duty assessed on trades.

Bankers Trust
Minimum deposit is \$1 million, or \$2 million for corporate financing programs. Annual management fee and custody of assets and type of management service. Transaction fees charged at 1 percent annual fee for the first \$2 million, with declining rates for larger accounts. Annual fee for these accounts is \$25,000.

Swiss banks
Swiss banks are subject to the Convention of Swiss Banks. Stamp duty assessed on trades. Transaction and administrative fees charged according to Convention of Swiss Banks. Stamp duty assessed on trades.

New global services are designed to lure a savvier clientele.

By Cynthia Catterson

AFTER completing a single-handed yacht race from Britain to Rhode Island last summer, a wealthy Briton called his banker at the exclusive firm of Courts & Co. in England for help. The yachtman did not have enough time to make the return journey across the ocean, so three Courts managers boarded a plane to the United States and spent the next two weeks sailing the client's yacht back home.

While this sort of service is hardly common at most private banks, it illustrates the lengths that many private bankers will go to to cater to the needs and whims of the world's wealthy. "At the end of the day, we do more than just offer financial advice," explains Warwick Newbury, director of international financial services at Courts & Co. "We'll help the rich do anything they want, within legal boundaries."

Although such traditional asset management services as tax preparation, estate planning, and stock, bond and currency investments are at the core of private banking, private bankers often cross the line from financial adviser to personal secretary, taking on such tasks as hiring private cars, securing elusive theater tickets, paying household bills and delivering special local delicacies to clients abroad. For most private banks, these seemingly frivolous perks are a small price to pay to keep affluent clients from taking their more serious — and lucrative — financial affairs elsewhere.

"Banks recognize that if they can establish a rapport with high net worth clients, there are a lot of cross-selling opportunities for their other banking services," says Nick Collier, a banking analyst with Hoare Govett in London.

Moreover, with growing competition from securities houses and large banks in every major financial center, private bankers are broadening their services. Attempting to tap into the post-war generation of new millionaires, the banks are emphasizing new global, return-oriented products and services. Many of these new clients are successful entrepreneurs and professionals with a keener sense of how they want their hard-won wealth managed.

"With so much financial information readily available these days, clients are more sophisticated about their finances than they were in the past," says Mark Groothart, director of marketing at Lombard Oiler in Geneva, one of Switzerland's oldest and largest private banks. "Banks have to strive to keep up with the changes in the marketplace."

In the past year, a number of private banking groups have introduced real estate services that locate and purchase property for foreign clients. Earlier this year, at the request of a Latin American customer, Bankers Trust located an income-producing property in the southwestern United States.

According to Barbara Thomas, head of Bankers Trust's international private banking division, the bank evaluated the

Bonds: Dollar Bandwagon Rolls On

By David C. Lanchner

BOND investors who ignored dire predictions for the dollar in late 1988 can count themselves fortunate. At a time when local bond markets in Tokyo, Frankfurt and London are registering negative returns, U.S. Treasury bonds are finally stepping into the limelight.

Though professional opinion is far from unanimous, three factors seem to be bolstering the U.S. bond market. Heading the list is the prospect of lower U.S. interest rates, which would boost bond prices. Then, there is the evidence that inflation is quickening in Japan, West Germany and Britain. Finally, foreigners are showing a passion for the dollar, partly because of unsettled political situations at home. The next six months, say many professionals, will likely bring more of the same.

"The golden age of international bond investing — when you could go to sleep with a bag of Deutsche marks on your pillow and wake up with better returns than you could get on U.S. Treasuries — is over," says Carl Weinberg, chief economist for High Frequency Economics, a New York advisory service that tracks global markets. The tale of woe for non-dollar bonds is told in the Salomon Brothers World Government Bond Index, which posted a negative return of 5.17 percent for the five months of the year. The index tracks the world's 10 most important bond markets and is a measure of total returns in dollars. It takes into account coupon payments, changes in bond prices and shifts in currency values.

Since January, only U.S. and Canadian bonds have posted positive returns, advancing 8.9 and 7.1 percent, respectively. Total returns in the other eight markets ranged from a nearly 4-percent loss on Danish bonds to a stunning 16-percent reversal for Swiss government debt.

While the outlook for U.S. and Canadian bonds remains fairly bright, it is gloomy for European and Japanese bonds. Analysts say the problem start-

ed last year when the dollar stabilized as U.S. interest began to rise in the spring. It was then that inflationary pressures in the United States were transmitted to the Japanese and Continental European economies.

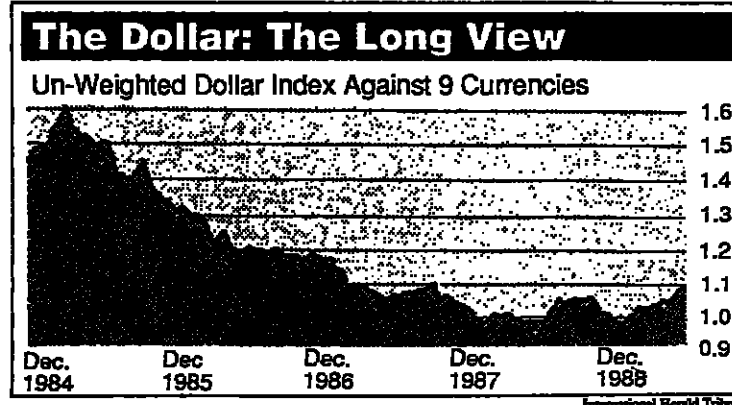
In those circumstances, the price of goods bought from the United States rose. And so did the cost of commodities like oil, which are priced in dollars. The effect on the West German economy was particularly evident. German inflation, which in the past few years has been between 1 to 1.6

percent a year, is now rising at an annual pace of 3 percent. The recent appreciation of U.S. currency has only exacerbated this situation.

"The trend overseas is toward higher interest rates," says Michael Rosenberg, the manager of international fixed income research at Merrill Lynch in New York. "In the U.S., the odds favor lower rates."

Mr. Rosenberg does not expect the Federal Reserve to significantly ease

Continued on page 12



PROFILE

Jim Rogers: Stalking the Big Trend



Jim Rogers on the roof of his Manhattan townhouse.

ON Oct. 19, 1987, when many investors were winning their hands over the Black Monday plunge in global stock markets, Jim Rogers spent the day relaxing with friends in the roof garden of his townhouse on the Upper West Side of Manhattan.

For Mr. Rogers, the news was hardly bad. A legendary stock picker and trader known for making money from both rises and falls in the markets, he had counted on just such a setback. He had gone short — bet on a decline — in the share prices of investment banks such as Morgan Stanley and mutual fund groups such as Dreyfus.

The single-day decline of more than 30-percent in share prices produced a huge windfall for Mr. Rogers, who was born on Oct. 19. "It was the most extraordinary birthday present I ever received," he recalls in an interview at his home.

A 46-year-old Alabamian with a lingering Southern accent, Mr. Rogers spends a minimal amount of time these days on his portfolio, regarding it almost as a gentlemanly pursuit. His strategies derive from long-term views on the directions of society and the world economy. But he did not always take such a leisurely attitude, say those who knew him when he was managing the Quantum Fund, which he founded in 1969 with another investment legend, George Soros.

In those days, Mr. Rogers had a reputation for screaming into telephones and for reaping torn Brooks Brothers shirts with tape. By the end of 1980, the offshore Quantum Fund had rolled up an impressive record, gener-

ating a compounded annual return in excess of 30 percent.

But Mr. Rogers worried about the effects of the daily grind. He quit Quantum in the spring of 1981, selling his share of the firm for \$14 million. "I did not want to die of a heart attack at age 47," he said at the time.

Today, when he is not pursuing adventures like his motorcycle trip across China last summer, he teaches securities analysis at Columbia University. He is also the moderator of a weekly television program that features a panel of investment specialists. With an extensive personal portfolio of international stocks, bonds and commodities, he remains one of the most widely quoted experts in the financial press.

"At the moment I am not too sanguine about investments," acknowledges Mr. Rogers. A believer that "investors should profit on the downside as well as the upside," he has short positions in several markets, including Japan, Spain and Britain. In U.S. stocks, he says he is more negatively invested than at any time since before the 1987 crash.

"The problems that caused Black Monday are still with us," says Mr. Rogers, explaining his current pessimism. He believes that the U.S. budget and trade deficits caused the crash and will once again undermine many of the world's stock markets.

"We are very near market highs," contends Mr. Rogers. The strength of the dollar is regarded by him as a case of speculative excess. Nor does the apparent resilience of the Japanese market impress him. Though the Nikkei index is at record highs, he notes

Continued on page 11

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Continued from page 9

risk and income potential of the property — a distribution, center leased by a major worldwide courier service. It then arranged the financing and took care of all the legal work. The bank will act as landlord until the client decides to sell.

"In the past, a foreign investor was at a disadvantage in the real estate market because they couldn't always be on the spot," explains Ms. Thomas. "This way, the client receives the rent check each month, and we do all the work."

Elsewhere, an Asian customer of Chase PrivateBanking International was able to acquire a 49 percent stake in a New England office building as part of the real estate limited partnership program Chase provides to its private clients.

For many banks, private banking is a natural extension of their other corporate and merchant banking businesses. Frequently, banks will use their corporate finance and investment banking clout as a selling point to private clients. When a president of a European computer company wanted to find joint-venture funding to develop manufacturing and distribution facilities in Southern Europe, he went to his financial adviser at Nomura Bank (Switzerland) Ltd. to gain access to Nomura's influential contacts in the Pacific Rim. An agreement with an Asian computer firm was reached this month.

Additionally, many banks give their private clients the opportunity to invest in some of the bank's exclusive deals that are not ordinarily open to outside investors. Such was the case when Bankers Trust undertook a leveraged buyout of a building products distributor a few months ago. Officials contacted an individual private client who had earlier expressed interest in being part of such a deal. As a result, the client was able to purchase some of the company's preferred and common stock.

While the competition for well-heeled clients has intensified, the price of admission to private banking departments remains stiff. Although the sum varies from bank to bank, most require that clients deposit a minimum of between \$500,000 and \$1 million in liquid assets. Swiss private bank Pictet & Cie. is on the low end, requiring \$200,000, while Lugano-based



Warwick Newberry of Coutts wears the tradition frock coat.

BSI, a high-end niche player, requires a hefty minimum down of \$10 million. Many banks will make exceptions if officials have reason to believe the individual is likely to come into more money, through inheritance or a business venture, in the near future.

In some cases, the minimum requirement is tied to the type of investment service used by a client. Bankers Trust has an overall deposit minimum of \$1 million for its private clients, but those seeking to participate in high-risk corporate financing projects must put up at least \$2 million.

For individuals whose assets put them in this league, picking a private bank can be tricky. There is little information available to help potential clients compare the performance of one private bank to the

next. In part, this is because each private account is handled differently, according to each client's wishes. Thus, it is difficult to track and compare one account with another.

Overall, private banks are not known for their stellar investment performance. Many adopt a solid approach that reflects their clients' risk-averse attitudes. Says Rodney Schwartz, a banking analyst at Shearson Lehman Hutton in London: "Individuals have to realize that, for the most part, banks aren't selling performance. They're selling discretion, convenience and personalized service."

While experts say investigating the range of products and the specific funds where assets will be invested can be helpful, in large part, individuals must still rely on word of mouth and reputation.

"It's not easy to make a selection," agrees Mr. Collier at House Govett.

BEYOND checking a bank's investment expertise and the quality of its service, potential clients should take a hard look at the fees. Most "fringe" private banking services come at a cost beyond the basic asset management charges. Legal advice, fiduciary services, and private placements all bring extra charges.

For basic asset management, banks typically charge an annual management fee of between 0.25 percent point to 1 percent of the assets under management. On top of that come brokerage transaction fees.

In general, fees tend to be higher in Switzerland than elsewhere, usually above 1 percent annually. There, bankers charge customers a premium on transaction fees, safekeeping fees, and, on top of that, some banks charge an annual management fee. In addition, all securities transactions are taxed by the Swiss government.

Lastly, analysts note that while the private banks try to set themselves apart from the pack with new services, the customer should not lose sight of the basic product: confidential, personalized asset management. "The packaging and the delivery by the private banks may be more sophisticated these days — but the business they're selling hasn't changed for centuries," says Shearson's Mr. Schwartz.

A Baby Boom Bet

The Baby Boom: A Global Phenomenon

Percent of population in selected age categories

	Age 15-24	Age 25-34	Age 35-44
U.S.	18.6	17.6	13.0
Japan	14.2	14.0	16.4
U.K.	16.3	14.1	13.6
France	16.4	16.4	12.5

Source: Shearson Lehman Hutton Securities

DEMOGRAPHIC trends have turned private banking into a growth business, some analysts believe. The baby boomers in Western societies are moving into middle age, they note, creating populations that will be, on average, more mature than those of recent decades.

That will mean a higher propensity to save than to spend, increasing the need for private banking services, the argument goes. The postwar prosperity of the last couple of decades has already created a new level of wealth, analysts note. Slower growth of the work

force will also keep salaries high. Middle-age executives and professionals, thinking ahead to retirement, will abandon free-spending and concentrate on accumulating wealth. All this translates into a bigger potential customer base for private bankers.

"Private client businesses are one of the few areas in banking that are making good money these days," says Rodney Schwartz, a banking analyst at Shearson Lehman Hutton Securities in London. "Some banks in this field are clearly going to profit from the trend."

Finding pure plays on private banking is tough, though. The private banking operations of large commercial banks seldom account for a big portion of the bottom line even when they are profitable.

When sizing up the few choices, analysts say, investors should pay close attention to the growth rates of a bank's deposit base as well as the absolute level of deposits. "Deposits in the end determine a bank's earnings," says Mr. Schwartz. "The higher the absolute level of deposits, the higher the growth margin from new deposits. There is an economy of scale in this business."

MR. Schwartz is currently recommending the London-listed shares of Safra Republic Holdings, the Geneva-based private banking group headed by Edmond Safra, something of a legend in the industry. In a business dependent on personal relationships, Safra Republic will prosper under its highly experienced, well-connected management team, Mr. Schwartz believes.

Another plus, he says, is Safra Republic's low ratio of loans to assets, about 18 percent, and the absence of Third World loans on its books. The bank should also benefit, along with other Swiss banks, from the easing of foreign exchange controls in the European Community and elsewhere, he says.

Trading at a price-earnings ratio of just under 15, Safra Republic shares look attractive when compared to other private banking stocks, Mr. Schwartz says. He estimates that other private-banking stocks trade at P/E's between 20 and 32.

Cindy Catterson

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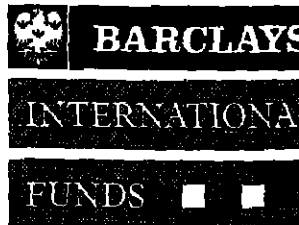
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Luxembourg Secrecy Skirmish

By Jacques Neher

LUXEMBOURG bankers have worked hard to burnish the image of the Grand Duchy as a major private-banking center. To compete with the more established Swiss, the Luxembourgish stress the picturesque Duchy's multilingual culture, efficient and relatively low-cost services and its location in the heart of Europe.

Less publicized — but always at the heart of the pitch for private clients — are the Grand Duchy's stringent banking secrecy laws. Indeed, local bankers boast that Luxembourg's brand of confidentiality and discretion surpasses that of arch-rival Switzerland.

But those laws are now under attack from the European Community in its push to harmonize European banking regulation. Bent on eliminating tax havens, the EC wants Luxembourg — the home of a big part of the EC bureaucracy — to eliminate or, at least, alter its secrecy laws.

Luxembourg's response: A defiant "no." There is "zero chance"

The Grand Duchy rejects an EC plan.

of retreat on the secrecy front, insists Jean Klier, senior vice president of the Banque Internationale à Luxembourg and president of the Luxembourg Bankers Association. "We've made it clear that banking secrecy exists, and that we are not prepared to discuss the issue."

So determined are Luxembourg officials to resist EC proposals that they recently reinforced their bank-secrecy laws. Local bankers see the secrecy laws as the cornerstone of the Grand Duchy's ability to compete with Switzerland, not an EC member, and other offshore banking centers whose favorable tax regimes attract private money. "Banking secrecy is a big selling point of Luxembourg's banks, even if they don't advertise it,"

acknowledges Klaus Weathoff, an executive at Compagnie Luxembourgeoise de la Dredner Bank AG. "We can never give in on the banking secrecy issue because it would be the death of Luxembourg as a financial center."

The proposals that prompted Luxembourg to shore up its secrecy laws were announced earlier this year by EC tax commissioner Christiane Scriveren. His directive called on member countries to start imposing a 15-percent withholding tax on interest payments to investors. Still more onerous, in Luxembourg's view, was the second part of the plan, which would give tax investigators in one member country easier access to financial records in another member country.

With the Scriveren proposal already on the table, the Grand Duchy moved to tighten its secrecy laws. The laws already barred bank executives, under threat of prison, from releasing information about account holders to third parties unless a court had decided criminal activity had occurred. Such activity does not include tax evasion, which is not a crime under Luxembourg law. In March, the government added language explicitly blocking tax authorities from inquiring about accounts at banks, brokerage firms and mutual fund companies.

Both the withholding and tax cooperation measures are expected to be high on the agenda at this week's meeting of Europe's finance ministers in Luxembourg. The withholding plan was undermined in May when West Germany repealed its own 10-percent withholding law, and observers now expect it to be buried or severely modified. Luxembourg is likely to give the tax cooperation plan an equally rough ride, though Prime Minister Jacques Santer recently indicated that he might go along with some form of cooperation on tax investigations in exchange for dropping the withholding tax proposal.

Treasury Minister Jacques Poos recently announced that Luxembourg would draw up legislation specifically outlawing laundering activities for drug money. Up to now, the Grand Duchy has not been able to respond to requests for assistance from other countries because the activities being investigated were not crimes in Luxembourg.

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BOURSES

Bargains in Double-Barreled Stocks

Companies with big stakes in other firms draw value players.

By Cynthia Catterson

TO shareholders, Petrie Stores Corp.'s 1,600 stores and the \$1 billion in sales they bring in every year are reason enough to like the company. But money manager Mark Boyar says there is an even better argument to own stock in the New Jersey-based clothing retailer: Its 14.1 percent stake in Toys R Us.

Shares in the children's toy and apparel chain sell for about \$44 a share. This means that Petrie's 17.9 million shares are worth almost \$800 million, or about \$16 a share to Petrie shareholders, according to Mr. Boyar, who handles \$300 million for institutional and private investors.

When combined with Petrie's other hidden assets, namely \$2 a share in cash and \$1 a share in an overvalued pension fund, Mr. Boyar sees Petrie's \$20 share price as a bargain.

"Essentially, you're getting a stake in Toys R Us at a discount and all of Petrie's stores for free," Mr. Boyar says. Should Petrie sell its Toys R Us shares, he adds, the value of Petrie stock could increase dramatically, more than 50 percent.

This so-called two-for-one investment approach is not new to value-oriented investors who search for hidden assets in the financial statements of companies. But such opportunities are often overlooked by the general investing public.

"Normally, you don't see these situations reflected in the price of the stock," says Mr. Boyar.

Most people tend to buy a company directly if they are interested in owning it, rather than looking for a third party that has a large stake in that company. "If an investor wants a liquor company or a chemical company, they'll buy it directly," says Michael Metz, market analyst at Oppenheimer & Company.

But the indirect approach can often give the investor greater exposure for the same cost. Mr. Metz cites Seagrams Co., which owns a 22.9 percent position in DuPont. Mr. Metz says this stake is worth about \$50 a share to Seagrams, which trades at around \$72.

In some cases, it can be years before the hidden treasures are uncovered. "The art is in trying to find which ones will be recognized," says Larry Harris, manager of Worldwide Value Fund. "Sometimes the values are hidden because management wants it that way."

For instance, the family-run Belgian grocery chain, Delhaize, has had a 51 percent position in a North Carolina-based supermarket, Food Lion, for about 15 years. Mr. Harris calculates that Delhaize's 151 million shares of Food

Two-For-One Plays				
Company A	Share Price April 27	Company B	Percent Stake Held by Company A	Calculated Share Value to Company A Shareholders
Loews Corp.	\$91.50	CBS CNA Fin'l.	25.0% 82.0%	\$16 \$47
Petrie Stores	\$20.63	Toys R Us	14.1%	\$16
Seagram Co.	\$72.13	DuPont	22.9%	\$50
North Star Universal	\$11.00	Michael Foods	52.8%	\$13

Lion is worth as much, if not more, than Delhaize itself, which is a \$1.5 billion company and sells for about 5,500 Belgian francs a share.

"Even a hint that management might be considering selling its stake in Food Lion would send the stock price up 50 percent," says Mr. Harris. However, Food Lion has been so profitable for Delhaize, in terms of return on the initial \$20 million investment and annual 10 cents a share dividend, says Mr. Harris, that "no one thinks Delhaize would ever sell."

Nonetheless, astute investors can increase their odds by watching for certain clues that indicate a change in corporate policy is on the way, experts say. The death of a controlling shareholder, a dramatic change in management or the entry of an aggressive third party are all events that could serve as a catalyst to loosen one company's grasp on the shares of another.

"Newer management in a company is not encumbered with protecting policies of past managers," says Mr. Harris.

THE chances of benefiting from such values are greater now than in the past because of the overall trend among corporations to streamline operations, says Mr. Metz at Oppenheimer. "All of those companies that went on the acquisition binge that started in the 1960s are now breaking it all apart," he notes. One prime candidate, according to Mr. Metz, is USX, which owns Marathon Oil, Texas Oil and Gas and U.S. Steel. Mr. Metz says shares in USX have been strong recently because there is anticipation that management is going to change.

"The stock could move as much as 30 percent because new management would probably restructure and disassemble those pieces," he says. For similar reasons, Mr. Metz

likes Philip Morris, with its subsidiaries, Miller Beer, Kraft Foods and General Foods.

Another candidate for restructuring, he says, is Loews, which owns a 25 percent of CBS and 82 percent of CNA Financial, among other things. According to Mr. Metz, CBS and CNA have a combined value to Loews shareholders of \$63 a share. "That's not even including all the Loews theaters, hotels or its subsidiary Lodiant," he says. Mr. Metz says Loews could appreciate as much as 50 percent from restructuring.

Indirect investment opportunities are not the sole domain of large conglomerates. Analysts note that there are many smaller companies that trade over-the-counter with considerable holdings in other undervalued firms. However, they caution that these companies can be too small, obscure and illiquid to get enough attention from institutional investors and brokers.

"Many times these values can't be realized because the company is too small for a professional to accumulate a meaningful block of stock," explains Binkley Shortt, manager of the \$330 million Over-the-Counter Securities Fund.

Still, opportunities exist. One of Mr. Shortt's favorites is North Star Universal, a Minnesota-based company whose \$11 share price belies the value of its hidden treasures. Mr. Shortt says North Star's shares in a food distribution company, Michael Foods, are worth \$13 per North Star share.

What is more, he says North Star is likely to bring public two of its subsidiaries, Fortus, a health care operation, and Americable, an electric cable manufacturer and distributor, which he estimates to be worth about \$4 a share each. He also expects North Star to package a number of its other groups to form a graphic arts company.

"So even if you just like Michael Foods, you don't buy Michael Foods, you buy North Star to get Michael Foods and all the rest for free," says Mr. Shortt.

A certain vision



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PROFILE

Jim Rogers' Negative Bets

Continued from page 9

that the performance of the market average masks the large number of Japanese stocks hitting 52-week lows.

"Since January I've been right on every stock I've shorted in the Japanese market, and that is rare for me," he says. Two Japanese stocks that Mr. Rogers currently believes are good candidates for selling short are Pioneer Electronics and Kubota, a large construction firm.

Mr. Rogers pays scant attention to quarterly earnings or many of the other traditional measures of security analysis. Instead, he believes investors should spend most of their time looking for long-term trends that are likely to boost a whole industry for several years. In the 1970s, Mr. Rogers loaded up on oil stocks when the OPEC petroleum monopoly seemed to be coming into its own. As discussion grew within OPEC during the 1980s, he sold his positions and began selling the same stocks short.

His eye for social trends often provides some unconventional indicators. A major reason he felt world markets would tumble in 1987 was the large number of graduates at Ivy League universities going into investment banking. "Twenty-two-year-olds are poor judges of the future," observes Mr. Rogers. "If they go one way, you should go the other."

Since leaving Quantum, Mr. Rogers has specialized in investing in emerging markets. What he looks for are sleepy capital markets that are likely to be shaken up by government economic policies. In recent years, Mr. Rogers has seen his investments more than double in the Portuguese, Austrian and Swedish stock markets as socialist governments in those countries turned away from protectionist policies and toward active campaigns to stimulate foreign investment.

"Right now, I'm wildly bullish on Indonesia," he says. In addition to being the fifth most populous nation in the world with a potential consumer base of 175 million people, Indonesia is rich in natural resources. The currency was recently made freely convertible, and the government has set out to create a strong capital market. Best of all, the 30 odd stocks that trade in Indonesia are very thinly capitalized. In popular markets, this allows small investors to get in ahead of big institutional investors.

"A \$10-million investment would inundate the market. But the number and value of shares is growing at a fast enough rate so that in three or four years the big mutual fund companies will move in," he predicts. "That's when I'll sell my shares."

He has scooped up stock in all 18 of the companies that the government permits non-Indonesians to buy. "When you have too many dollars chasing too few shares, even bankrupt firms can double and triple in value," he explains.

Although he has significantly cut back on his U.S. investments in recent months, Mr. Rogers is holding on to stock positions in regional banks like Mellon and First Pennsylvania Bank Corp. Shares in these banks have been depressed for the last couple of years because of bad loans.

But Mr. Rogers notes that "the banks have restructured and are

now making more conservative loans." As the bad debts get taken off the books in coming years, the stock prices could advance dramatically.

"Fallen angel" bonds are another area where Mr. Rogers finds values. These bonds have plummeted in price and surged in yield because the issuing company has fallen on hard times. Unlike many high-yielding junk bonds, fallen angels often give holders solid claims on the issuing company's assets.

One fallen angel bond issue that attracted Mr. Rogers was Tidewater Marine, a major oil rig builder. Although Tidewater bonds have a hefty annual yield of 16 percent, reflecting pessimism over Tidewater's future prospects, Mr. Rogers believes the coupon payments can be met.



AP Wide World
David C. Lanchner
Jim Rogers: "I'm not very sanguine."

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FUNDS

Risky Bets On Interest Rate Moves

By Bruce Hager

SHORTLY after the 1987 stock market crash, investors swarmed to closed-end bond funds, boasting yields higher than their open-end counterparts. A new twist on the theme is the leveraged bond fund, a closed-end portfolio that uses its assets as collateral to help boost the yield higher still.

But despite yields over 14 percent, the new product has elicited more boos than cheers from analysts and money managers. One reason is that most leveraged bond funds are less than a year old and have no perceptible track record. Another reason is the risk associated with leveraging while interest rates are in a state of flux.

Leveraging is akin to buying stocks on margin, except bond fund investors bet on interest rate swings rather than stock market volatility. The fund leverages itself by borrowing against its assets at short-term rates and investing the proceeds at higher long-term rates to boost income and value for shareholders.

Hence, if a \$100 million junk bond fund wants to leverage 45 percent of its portfolio, it borrows \$45 million either from a bank or by issuing preferred stock. It then invests the proceeds of the loan or preferred stock in more junk bonds. The fund thus has a total of \$145 million in junk bonds based on assets of \$100 million.

"If the portfolio goes up in value, the effect is amplified. If it goes down, the effect is amplified," says Kathleen Flanagan, a spokeswoman for John Nuveen & Co., which offers the Nuveen Premium Income Fund.

Unlike their open-end cousins, closed-end funds have a fixed number of shares that trade on stock exchanges. Since fund managers do not have to worry about constant redemptions, their portfolios can often be fully invested and derive more income.

Closed-End Bond Funds: How Much Leverage?

Fund	Assets	Leverage
New America High Income	\$394 million	45%
Cigna High Income Shares	\$305.6 million	25%
Zenith High Income	\$168 million	44%
Van Kampen Merritt Municipal Income Trust	\$145 million	40%
Nuveen Premium Income Fund	\$ 1.06 billion	33%

International Herald Tribune

The closed-end structure also allows managers to leverage up to 50 percent of their portfolios and create two or more groups of shareholders. The first are short-term investors who buy the preferred shares. Fund shareholders themselves, who seek a higher yield from the fund's long-term investments, make up the second group.

"By applying the leverage we are able to create a very positive spread between borrowing costs and our average coupon income," says Alan Petersen, who manages Cigna High Income, which leverages 22 percent of its \$305 million in total assets and boasts a current yield of 12.8 percent.

USUALLY a significant spread exists between short- and long-term rates, which makes leveraging practical. But earlier this year, inflation fears drove short-term rates up faster than long-term rates. Rates on short-term money market funds rose above 9 percent last spring, while those on long-term Treasury bonds inched up to 9.2 percent. Both are now below 9 percent.

"I don't think any of the current bond funds are attractive when you combine their risk and short-term borrowing," says Ron Olin, president of Deep Discount Advisors, a money advisory firm in Houston, which specializes in closed-end funds.

Indeed, fund managers have felt the squeeze. New America High Income, which made its debut about a year ago, has a little under \$400 million invested in high yield securities yielding more than 13 percent. Part

of the investment consists of 579 million of preferred shares that roll over every 30 days.

They first traded with a 7.725 percent yield, according to Patricia Ostrander, the fund manager. The rate subsequently rose to 10.13 percent before dropping back down to 9.91.

Such a rate squeeze can put pressure on the dividend a fund pays to shareholders. In May, New America's dividend stood at 11.8 cents, compared to 12.3 and 12.6 a month last year. Mr. Petersen of Cigna High Income says his fund cut its dividend to 10 cents last spring from the 10.5 cents a share it was paying investors when the fund began last year.

Analysts say fund managers who are in a yield squeeze might be forced to buy lower quality long-term bonds that have higher yields. And as bond yields rise, the underlying value of the bond portfolio decreases.

"Bond managers don't like to cut the dividend. Once they do, the share prices will come under pressure, and that makes them vulnerable to a takeover," says Thomas Herzfeld, an investment advisor specializing in closed-end funds in Miami.

Fund managers counter by saying they have weapons to combat rising rates. They can reduce the leveraging by winding down positions in short-term instruments. A fund like Cigna High Income Shares might be able to sell off its short-term position within 30 to 40 days.

These same managers also point to indications that interest rates might be stabilizing and heading down in months to come, which would ease the squeeze on dividends and generate significant capital gains in their bond portfolios. □

Bonds: Betting on The Dollar

Continued from page 9

Interest rates until the late summer or early fall. But he believes that just the expectation of a drop will keep bond prices strong.

Logically, investors might expect the dollar, which has been supported by higher interest rates, to fall in those circumstances, especially as higher interest rates abroad tempt investors. But Mr. Rosenberg expects the dollar to hold its own or even advance against most currencies, despite rising overseas interest rates.

The reason, he says, is that the slowing in the U.S. economy will put a damper on U.S. consumers' appetite for foreign goods. The U.S. trade deficit, in turn, will improve, he believes, supporting the dollar.

Investors have already begun responding to optimistic scenarios of lower U.S. interest rates. Since the end of April, the yield on 10-year U.S. government bonds has dropped a full percentage point, to 8.4 percent. Mr. Rosenberg and other analysts expect the 10-year yield to fall to less than 8 percent by year's end. In the last half, coupon payments and the increase in bond prices could provide a total return of between 8 and 10 percent, he says.

But the long-term picture for U.S. bonds depends on the Bush administration's ability to cut the budget deficit. "If the budget deficit is narrowed, pressure on interest rates will drop off, and you could see a sustained bond rally," says Mr. Weinberg.

The only bond market widely touted as possibly doing better than the U.S. market in the next six months is Canada. "You've got the same story as the U.S., with the added impact of much higher interest rates on short-term Treasury bills," says John Grant, an economist and fixed-income specialist at Wood Gundy in Toronto. As the economy slows, Canadian interest rates could come down more rapidly than U.S. interest rates.

By June of next year, Mr. Grant believes, a tight monetary policy will have moved Canada into a recession, with yields on 12-month government bills falling nearly three percentage points. Yields on long-term bonds, which are lower than those on short-term instruments, will be more stubborn, he says. Meanwhile, the Canadian currency is widely expected to

April Market Scoreboard

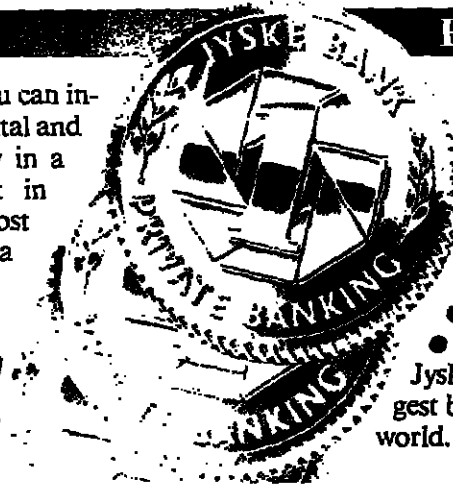
Best Performers			Worst Performers		
	Percent Change	Price May 31		Percent Change	Price May 31
New York Stock Exchange:					
Compiled by Media General Financial Services. Prices in dollars					
Barry Wright Corp.	+95	10.25	SPX Corp.	-27	28.50
WMS Indus. Ind.	+49	13.38	Windward Corp.	-26	20.50
Flack+Kurtz Corp.	+47	22.88	Arva Group	-22	17.88
Milton Roy	+45	18.13	AMAX Gold	-21	11.25
Biorack Labs Inc.	+42	15.25	DeSoto	-17	27.38
Columbia S & L Assn.	+34	11.25	Progressive Corp.	-16	16.50
Hilton Hotels Corp.	+33	85.13	Commodore Intl.	-16	15.88
C3 Inc.	+31	12.00	American Family Corp.	-16	43.13
PAR Pharmaceuticals	+30	10.75	Quantum Chemical	-16	10.88
NCNE Corp.	+29	46.88	Nationwide Health	-16	10.88
American Stock Exchange:					
Compiled by Morgan Stanley Capital International. Prices in pence					
Adiprom	+37	14.38	Holly Corp.	-20	33.00
Lilian Vernon Corp.	+32	21.13	Continuum	-19	13.88
Hampton Ind.	+32	13.50	Datsaproducts	-17	13.88
Blessing Corp.	+30	19.13	Crowley, Milner & Co.	-14	27.75
Arctic Alaska Fisheries	+28	11.25	Hudson General	-13	19.00
Over the Counter:					
C-TEC CL (B)	+229	20.75	MMR Holding Corp.	-36	10.25
Commercial Federal	+100	13.00	Diversified Invest.	-31	10.75
Clothesline	+96	10.75	Varianco Systems	-21	14.75
Whigen	+71	19.25	Respironics	-15	11.50
Home Fed Svcs Bk N. Ch.	+69	13.50	Pellex Corp.	-19	10.13
London Stock Exchange:					
Compiled by Morgan Stanley Capital International. Prices in pence					
UEI	+40	702	McCarthy & Stone	-38	219
Racal Telecomm.	+31	462	United Scient. Hlths.	-17	150
Eurochem (London)	+31	1,034	Armstrong	-16	98
Rank Hovis McDougall	+20	444	British Comm. Hlths.	-15	178
Int'l Thompson	+16	913	Mayer International	-11	380
Vickers	+15	207	Smith & Nephew	-10	134
Jaguar	+15	346	Norcross	-10	305
Saschi & Saschi	+14	320	Hambros PLC	-10	207
Racal Electronics	+13	499	Marley	-10	150
British Aerospace	+13	662	Barrat Developments	-9	183
Tokyo Stock Exchange:					
Compiled by Morgan Stanley Capital International. Prices in yen					
Mitsuba Homes	+35	2,570	Inageya	-16	4,200
Tokyo Steel MFG.	+34	4,820	Mitsui Petrochemical	-14	1,880
Yamatoko-Honeywell	+33	2,720	Osamura	-13	1,820
Tokai S&I	+30	1,170	JEOL	-13	1,490
Dento	+25	2,480	Japan Synthetic Rubber	-11	1,240
Toshiba Tungaloy	+25	2,290	Mitsubishi Metal	-11	1,110
Fujita Tourist (Kankio)	+24	3,090	Nishin Oil Mills	-10	1,080
Amada	+23	2,080	Mitsubishi Gas Chem.	-10	1,000
Makino Milling Machine	+23	1,340	Mitsubishi Petrochem.	-9	1,840
Hitachi Sales	+23	1,110	Nippon Mining	-9	925

International Herald Tribune

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Jakarta's Bid for Stardom

Continued from page 9

manager's aim is to reverse those proportions as the market expands.

Recent regulatory changes announced by the Indonesian government should encourage listed companies to increase their public shares and unlisted companies to go public. Listing requirements were eased and restrictions on daily stock price movements removed. Also removed was a requirement that at least 50 percent of each new share issue be offered to PT Danareksa, the state-owned investment trust. Finally, a 15-percent income tax on interest earnings was imposed to encourage Indonesians to put some of their huge savings into the equity market.

A local broker predicted that 50 companies would go public this year, but the government's goals are somewhat more modest. Finance Minister Johannes Sumar-

lin says five new listings each year would satisfy authorities.

At the same time, new share issues will put more scrip into circulation. Ms. Wood of Merrill Lynch says a half dozen high-quality issues jointly valued at \$25 million could be expected this year. Last November, the PT Jakarta International Hotel's \$14-million issue was more than 200 times oversubscribed, mainly by foreign investors.

While deregulation has increased the incentive to go public, the Indonesian custom of keeping two sets of books—one official and one unofficial—will pose a barrier to new listings, analysts say. The market's best chance for growth lies with the newer, export-oriented companies hungry for expansion capital. To encourage them, a "parallel bourse" with less rigid listing requirements than the Jakarta Stock Exchange has been set up for over-the-counter trading of new public offerings by smaller companies. □

Colleen Geraghty

The Daily Source for International Investors.



New International Bond Issues

Compiled by G. Jennifer Shapiro

Issuer	Amount (millions)	Mat.	Coup. %	Price	Yield	Terms
FLOATING RATE NOTES						
Collateralised Bond Obligations	\$210	2000	0.20	100	—	Below the 3 month Libor. Senior secured. Callable at par in 1990. Fees 0.25%. Denominations \$10,000. (Morgan Stanley)
Eurofima	DM 300	1999	0.125	100.45	—	Below the 3 month Libor. Senior secured. Callable at par in 1994 and on every interest date payment thereafter and to maturity. Fees 0.15%. Denominations 10,000 Deutsche Marks. (Morgan Stanley GMBH)
European Investment Bank	DM 150	2006	0.15	100	—	Below the 3 month Libor. Senior secured. Callable at par in 1999. Fees 0.20%. Denominations 10,000 Deutsche Marks. (Solomon Brothers)
UKB Baden-Wuerttemberg Finance	DM 300	1999	Flot	100.10	—	Pegged to the 3 month Libor. Senior secured. Callable at par in 1994. Fees 0.20%. Denominations 10,000 Deutsche Marks. (Frisches & Burtholke)
World Bank	¥ 200,000	1997	11%	100%	—	For the first six months, then the coupon pays either 1 Libor or 10% below Refit. Noncallable. Fees 0.75%. Denominations 5 million Yen. (Banco di Roma)
Copenhagen	¥ 7,000	1996	0.30	100.10	—	Below the Five Year Yen interest rate swap rate. Noncallable. Fees 0.20%. Denominations 100 million Yen. (JTCB Int'l)
FIXED COUPONS						
Creditop	\$100	1990	9	101	—	Noncallable. A further \$100 million is available on top. Fees 1%. (Bankers Trust Int'l)
Crédit Lyonnais	\$300	1996	9	101 1/2	99.00	Noncallable. Fees 15%. (Crédit Lyonnais)
Den Danske Bank AK 1871 A/S	\$200	1990	9	101	—	Noncallable. Fees 1%. Denominations \$10,000. (New Japan Securities Europe)
Esportfinans A/S (Norway)	\$50	1990	15	100	—	Redemption linked to the nymsen Sept. 1919 crude oil futures contract. Fees 1%. (Bankers Trust Int'l)
International Finance Corporation	\$200	1996	8 1/4	101 1/4	98.125	Noncallable. Fees 15%. (Credit Suisse First Boston)
Neste OY	\$250	1999	9 1/4	101.45	98.05	Noncallable. Fees 2%. (Nomura Int'l)
Samwa Bank Australia	\$50	1996	9 1/4	101 1/2	—	Callable at par in 1993. Fees 15%. Denominations \$100,000. (Banco Int'l)
Scandinavian Airlines System	\$200	1999	9 1/4	101 1/4	—	Noncallable. Fees 2%. (Morgan Stanley Int'l)
Victoria Public Authorities	\$50	1999	zero	41 1/2	—	Yield 9.22%. Noncallable. Increased from a \$150 million bond issued June 9. Fees 3/4%. (Solomon Brothers Int'l)
Bulgarian Foreign Trade Bank	DM 200	1996	8 1/4	100	—	Noncallable. Fees 20%. (Bayerische Vereinsbank AG)
Companie Bancaire	FF 750	1995	9 1/4	102.05	100.17	Noncallable. Fungible with a previous 700 million bond issued April 25. Fees 15%. Denominations 10,000 French Francs. (Crédit Lyonnais)
Interfinance Credit National	FF 750	1996	8 1/4	101 1/4	99.50	Noncallable. Fees 15%. Denominations 10,000 French Francs. (Crédit Commercial de France)
Olivetti International	FF 750	1997	9	101 1/4	99.275	Noncallable. Fees 2%. Denominations 10,000 French Francs. (Crédit Lyonnais)
National Investingsbank NV	DF 150	1996	7 1/4	102	100.00	Noncallable. Fees 15%. Denominations 10,000 Guilders. (Credit Suisse First Boston Nederland)
Caisse Nationale des Autoroutes	ECU 150	1999	8 1/4	101 1/4	100.25	Noncallable. Fees 2%. (Paribas Capital Markets)
Ford Credit Australia	Aus \$50	1994	15 1/4	101 1/4	99.875	Noncallable. Fees 2%. (Deutsche Bank Capital Markets)
State Bank of Victoria	Aus \$50	1994	15 1/4	102	99.80	Noncallable. Fees 2%. (Paribas Bank)
Banque Nationale de Paris	¥ 10,000	1992	6	101 1/4	—	Noncallable. Redemption amount linked to the Japanese Government Bond Futures Contract. Fees 15%. (Daiwa Europe)
Crédit Commercial de France	¥ 5,000	1991	9	101 1/4	—	Noncallable. Fees 15%. Denominations 10 million yen. (P&S Securities Europe)
Chrysler Financial Corp.	¥ 10,000	1992	5 1/4	101.30	99.925	Noncallable. Fees 15%. Denominations 1 million yen. (Nippon Credit Int'l)
Credito Italiano	¥ 5,000	1992	5.30	101 1/4	—	Noncallable. Fees 15%. Denominations 50 million yen. (Sumitomo Finance Int'l)
Jets 5	¥ 14,000	1993	5.45	101 1/4	—	Noncallable. Fees 15%. Denominations 10 million yen. (P&S Securities Europe)
Mitsubishi Corp. Finance PLC	¥ 10,000	1991	5 1/4	101	99.75	Noncallable. Fees 15%. Denominations 1 million yen. (Nikko Securities Europe)
State Bank of South Australia	¥ 10,000	1992	6 1/4	104 1/4	—	Noncallable. Fees 15%. Denominations 10 million yen. (Nomura Int'l)
State Bank of Victoria	¥ 10,000	1991	5 1/4	101 1/4	99.75	Noncallable. Fees 15%. Denominations 10 million yen. (Daiwa Europe)
Westpac	¥ 3,000	1990	10	100 1/4	—	Noncallable. Redemption amount linked to the Nikkei Stock Index. Fees 15%. Denominations 10 million yen. (Nikko Securities Europe)
EQUITY-LINKED						
MAP Investment NV	\$306	1999	—	100.05	—	Coupon and redemption amount linked to a New York Property Investment that is expected to be at least 2%.
Nagoya Railroad Co.	\$200	1993	4 1/4	100	99.25	Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at 1,200 yen per share and at 149.25 yen per dollar. Fees 25%. (Yamichi Europe Int'l)
Nippon Oil & Gas Co.	\$150	1993	4 1/4	100	100.75	Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at 1,140 yen per share and at 150.15 yen per dollar. Fees 25%. (Yamichi Europe Int'l)
Nippon Sheet Glass Co.	\$250	1993	4	100	—	Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at 1,097 yen per share and at 150.15 yen per dollar. Fees 25%. (Daiwa Europe)
Omron Telesis Electronics	\$250	1993	4	100	104.00	Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at 3,065 yen per share and at 149.25 yen per dollar. Fees 25%. (Nomura Int'l)
Pacific Metals Co.	\$120	1993	4 1/4	100	100.25	Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at 1,210 yen per share and at 151.55 yen per dollar. Fees 25%. (Yamichi Int'l Europe)
Sumitomo Corp.	\$1,500	1993	4	100	99 1/4	Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at 1,322 yen per share and at 145.70 yen per dollar. Fees 25%. (Daiwa Europe)

EUROBONDS: Investors Turn to Deutsche Marks

(Continued from first finance page)

swap the instrument into a floating-rate asset yielding 1 1/2 percentage points above the interbank offered rate. By contrast, bankers said Bulgaria could have tapped the syndicated-loan market for a five-year loan paying a margin of less than 1 percentage point over the interbank rate.

Also noteworthy last week was the flurry of European paper, all launched Friday, the first day of the new Japanese rules permitting issues with a life of less than four years. With all the Japanese banks aiming to be first off the mark, eight issues having maturities from one to three years were launched for a total value of \$3 billion.

Equally notable was the slowdown in equity-warrant issues launched for Japanese companies. After the monthly record \$10.1 billion marketed in May, the volume is now expected to slow to around

\$4 billion per month and then begin to fall more sharply in August as increasing numbers of Japanese companies turn to the domestic market for capital-raising issues.

Last week's \$1.5 billion issue from Sumitomo Corp. was hurt by the downturn in the Tokyo stock market and by the upward in Japanese interest rates. The big trading companies like Sumitomo, with their heavy debt load, are among the most exposed Japanese companies to rising interest rates. Even so, the coupon on the issue was set at 4 percent, down from the indicated 4 1/2 percent.

In the straight bond sector, the best received of the new dollar issues was the \$300 million offering of seven-year bonds by Crédit Lyonnais, the big French bank.

International Finance Corp., a unit of the World Bank but carrying its own triple-A rating for the

first time, was priced too tightly to World Bank bonds for the comfort of many investors and thus got off to a shaky start.

The most interesting issue was the small \$50 million one-year offering from Esportfinans A/S whose redemption value was linked to the price of oil. Unlike previous issues, however, investors have a limited potential for losses if the price of oil drops and minimized potential for gains if the price rises.

The issue was evenly split into \$25 million sections carrying coupons of 15 percent. On one section, the break-even oil price was set at \$19.95 per barrel and investors were assured of receiving not less than 75 percent of the principal on repayment. Coupled with the 15 percent coupon, that made a de facto guarantee of 90 percent of money back if the price next year is below \$18.

In New York, the Fed was seen selling securities on behalf of foreign institutions thought to be the Bank of Japan—showing markets that central banks would have the cash necessary to intervene in the currency market.

The show of force gave central banks an important victory after a string of futile forays had lost them some credibility. But the price was high: disarray in the foreign exchange market.

A truly global market where some \$100 billion a day changes hands, the foreign exchange market lost some of its wanted liquidity last week. To protect against the volatility of the rate movements, traders widened the normal thin spreads between their bid and offered prices in an effort to discourage new business.

The volatility of price movements, 5 percent in two working days, "is surely cause for concern," a New York bank treasurer said.

Jumbo Euro Disneyland Credit Being Syndicated

By Carl Gewirtz

International Herald Tribune

PARIS — After numerous delays to iron out details in the complicated loan agreement, the jumbo credit to help finance the construction of Euro Disneyland is finally being syndicated to a small group of international banks.

The theme park being built by Walt Disney Co. in an eastern suburb of Paris is expected to open in the spring of 1992 and attract 11 million visitors a year. They will pay 150 francs (\$22) to visit 27 attractions, spread over 200 hectares (500 acres).

The loan, a 7-billion French francs was underwritten last year by a group of six banks led by Banque Nationale de Paris, which agreed to provide 40 percent of the total. The five other banks, each underwriting 12 percent, are Crédit Agricole, Citibank, Deutsche Bank, Long Term Credit Bank of Japan and Morgan Guaranty Trust Co.

After syndication to a limited group of about 30 other banks,

which is expected to be completed in three weeks, the six banks arranging the loan are expected to keep about 1 billion francs for themselves.

Banks invited into the group as

INTERNATIONAL CREDIT

lead managers are being asked to underwrite 250 million francs. Those being named as managers will be asked to underwrite 150 million francs.

The credit is divided in two portions: 4.5 billion francs of main financing which is expected to be drawn and 2.5 billion francs as a standby credit in case of unexpected cost overruns.

The cost to draw on the main credit is set at 87.5 basis points, or 1/2 percentage point, over the interbank rate. The charge on the undrawn amounts, which probably includes the standby credit, is 15 basis points. Lead managers will earn a front-end fee of 25 basis points while managers will earn 15 basis points.

The credit can run for 17 years to the year 2006 with repayments of principal starting in 1998. If the cash flow generated once the amusement park opens in 1992 is greater than expected, amortization can start earlier and the final maturity reduced by one year.

The spread of 1/2-point over the interbank rate is also variable. The cost rises if the standby credit is used and after four years the spread can be reduced if the cash flow generated by the park exceeds projections. No details were available on either how high or how low the basic borrowing charge can move.

The total 7-billion-franc financing is to be divided in three tranches with 65 percent of the total coming from banks having offices in France. Another 20 percent will be reserved for banks to guarantee low-cost loans from the European Investment Bank and 15 percent reserved for Japanese banks guaranteeing loans from other third parties not including the European Investment Bank.

The aim of this feature is to allow Euro Disneyland to find and use cheaper finance than the banks can provide, particularly in the later years of the credit facility, while assuring lenders of a continuing recompense for their early financial commitment.

European Investment Bank is expected to provide attractive fixed-cost financing, but is unwilling to accept the risk of the project not succeeding. Walt Disney Co. is not guaranteeing any of the borrowings. Thus, banks in the syndicate would still be paid the 1/2 percent for issuing letters of credit guaranteeing repayment of the European Investment Bank loan.

The bulk of the syndicated credit, some 95 percent, is going to Euro Disneyland SNC, the company which will construct and then operate the theme park on a lease basis for 20 years. Thereafter, Euro Disneyland SCA, which owns the land, will take over the park and Disneyland SNC will cease to exist.

The rest of the syndicated credit

will go to Euro Disneyland SNC which over the next 20 years is expected to purchase and develop 1,800 hectares surrounding the theme park into hotels, private housing and office space. Euro Disneyland SNC obtained 2 billion francs in equity financing through a private placement with a group of French institutional investors earlier this year and in November is expected to make a public stock offering of about 5 billion francs.

Disney is committed to holding not less than 16 percent nor more than 49 percent of the equity of both entities.

The syndicate of 30 banks providing the 7 billion franc credit is expected to comprise about a dozen French institutions, 10 Japanese, three banks each from Belgium, Britain, Holland and West Germany and two each from Switzerland and the United States. Absent from the list are banks in Italy or Spain, which had competed aggressively against France for the location of the park.

In other news, Citicorp Investment Bank was mandated to arrange a \$1.25-billion, eight-year facility to finance aircraft purchased by Guinness Peat Aviation from Airbus Industrie, Boeing Co., McDonnell Douglas Corp. and Fokker.

The actual borrowers include the parent GPA Group Ltd., Irish Aerospace, GPA Airbus, GPA Fokker, GPA Jetprop and GPA Rolls.

The facility comprises revolving loans, guarantees or letters of credit on either a committed or uncommitted basis. Interest on committed facilities is set at 9 3/4 basis points over the London interbank offered rate for the five associated companies and 8 1/4 basis points for the master company GPA Group, which is limited to taking not more than \$420 million.

The difference in the interest rate reflects a deficiency guarantee from engine manufacturers that assures lenders of the resale value of the aircraft.

Interest on undrawn amounts is set at 1/4 percent annually.

JAPAN: The Crackdown in Beijing Hurts Commercial Ties With Tokyo

(Continued from page 1)

year, they had just begun stinging out China as an obstacle to Asian nations where investment costs are rising; but what many expected to be a flood of new commitments in China is now expected to flow elsewhere.

"Obviously, China will continue saying its reform policies remain unchanged," said Kazuaki Hasegawa, an official in the Ministry of International Trade and Industry's China section. "But we doubt we can really trust their words at this moment. The atmosphere was right, but recent incidents have poured cold water on everything."

Despite the new fragility of ties with Beijing, Foreign Ministry officials have sought to keep pace with the pronouncements of other advanced nations. After initial hesitations, Tokyo cautiously condemned the slaughter of student protesters on Tiananmen Square grounds; on Friday, Foreign Minister Hiroshi Miura criticized executives for returning to China with what he said was unseemly haste.

But officials acknowledged privately that the visibility of Japan's policy stance, reflecting the broad sweep of Western denunciations of military suppression in China, has turned the China issue into the most difficult Tokyo has faced since it emerged as a global power in the early 1980s.

While trying to match the United States and other nations, Japan also has sought to reflect its Asian identity, China's influence in the region, the growing importance of bilateral economic links and continuing sensitivities in China, whether real or feigned for political purposes, to Japan's wartime conduct.

Any further worsening in rela-

tions between Washington and Beijing would almost immediately upset this balance, officials said over the weekend. Accordingly, Tokyo intends to urge Western leaders to "think more carefully about relations with China," as a senior official said, before the summit meeting of industrialized nations to be held in Paris in July.

"It would be difficult for us to go along with lasting sanctions of any kind," the official continued. "This is a big step for Japan, and we can't afford to make a mistake."

This official and others defended the distinction Tokyo has drawn between China's offenses on humanitarian grounds and its political suppression of the pro-democracy movement. They asserted that it was only the "halfhearted" of the United States and other nations, as one said, that led them into criticism of the latter exercise.

"We have to be clear about precisely what grounds advanced countries decided 10 years ago to help China," a ranking ministry official said. "Beijing has no monopoly on the suppression of democracy, even among friendly nations in the region."

At the same time, officials appeared increasingly annoyed with what they view as China's effort to exploit Tokyo's position. Although they acknowledged embarrassment as Japanese executives returned to China, investment projects, officials contended privately that Chinese bureaucrats had actively coerced them into doing so.

Along with private-sector analysts, most officials expect Japanese investors to maintain current industrial projects in China while refraining from new commitments. The first indications of this are likely to appear when investment figures for the second half of 1989 are

reported early next year, they said.

Long inhibited by poor operating conditions and uncertain regulations, Japanese industries had just begun turning to China in the months after a six-day visit there last August by Noboru Takeshita, then Japan's prime minister. The visit was taken by many as confirmation that conservatives in the Communist hierarchy had been brought under control.

Direct investment totaled \$300 million last year, an increase of 30 percent from 1987 and triple the amount recorded three years previously. Most analysts predicted that the Japanese would easily overtake U.S. manufacturers this year as the second-largest group of foreign investors behind those of Hong Kong and Macao.

Virtually no one now expects those forecasts to be confirmed. Apart from a few companies with long experience of turmoil in China, there is too much uncertainty, Tokyo executives said, as to the economic policies that will emerge in Beijing in coming months.

Few question that China will seek to maintain the broad framework of its "open-door" policies. But the potential for new campaigns against "spiritual pollution" or "bourgeois liberalism" is likely to inhibit business contacts and sap the vitality formerly encouraged by reform efforts, executives said.

"Some even expect the open door to open further—they may have to do that as a matter of reassurance," said an investment analyst at a leading Japanese brokerage. "But the government is essentially conservative now. There must be new restrictions."

The removal of Zhao Ziyang as head of the Chinese Communist Party, which a Chinese official appeared to confirm Friday, was an-

DOLLAR: High Volatility Leaves Markets Confused

(Continued from first finance page)

Japanese were truly alarmed by the domestic inflationary implications of the dollar's slide on Thursday and that the Fed and the Treasury bank were concerned that the dollar was rising out of control.

In any event, the central banks hit the dollar hard at a time when they were thought to be least likely to intervene, just after Thursday's news of a decline in the April U.S. trade deficit. That favorable news would be expected to send the dollar higher and, with recent intervention so ineffective, many market participants believed central banks would not choose that moment to hit the market.

But the central banks did intervene just as some dealers were selling dollars to lock in the profits they had already earned. The central-bank moves also came just as the dollar was at critical levels for chart analysts. Climbing through such levels would have been extremely positive for the dollar, while a failure to make it would be interpreted negatively.

Whether by chance or design, the timing of the intervention was perfect and caught the dollar at its most vulnerable moment. While no hard numbers are available, dealers estimate \$10 billion was sold in the repeated interventions.

The dollar's decline gathered speed as automatic sell orders were triggered and near-panic trading conditions developed as dealers and investors sought to sell before the currency declined further.

In Japan, meanwhile, the Finance Ministry was cautioning insurance companies about their aggressive dollar purchases and the Bank of Japan let it be known that it was ready to spend \$1 billion a day to keep the dollar down.

In New York, the Fed was seen selling securities on behalf of foreign institutions thought to be the Bank of Japan—showing markets that central banks would have the cash necessary to intervene in the currency market.

The show of force gave central banks an important victory after a string of futile forays had lost them some credibility. But the price was high: disarray in the foreign exchange market.

A truly global market where some \$100 billion a day changes hands, the foreign exchange market lost some of its wanted liquidity last week. To protect against the volatility of the rate movements, traders widened the normal thin spreads between their bid and offered prices in an effort to discourage new business.

The volatility of price movements, 5 percent in two working days, "is surely cause for concern," a New York bank treasurer said.

"Quite a number of participants lost good amounts of money," he said, adding that conditions in the market "while not disorderly, are very dangerous."

Dealers said they were impressed by the vigor of the Japanese response and relieved to see the Finance Ministry and the Bank of Japan effectively speaking with one voice after a period of perceived discord. In addition, the near quarter-point rise over the week in the cost of three-month certificates of deposit was taken as a sign that the Japanese are ready to raise rates to narrow the attraction of investing in dollars.

—CARL GEWIRTZ

■ Tokyo Sees Consolidation

Patrick L. Smith of the IHT reported from Tokyo:

The dollar's brief but sharp climb in Tokyo above 150 yen, which occurred just before the release of the U.S. trade report for April on Thursday, pushed the currency into a clearly overbought position. Economists and currency traders said over the weekend, and it is now likely to consolidate in a narrow range either side of 145 yen.

Although the U.S. currency still enjoys basic support in the market, these sources said, guidance aimed at Japanese institutional buyers on the part of the Finance Ministry, combined with a new volatility in the market, is likely to temper speculative appetites for dollars.

Selling on the part of Japanese institutions was identified as a major force pushing the dollar down in late New York trading last Friday.

In effect the Tokyo market tested the dollar's two-year high of 152.23 yen, where the U.S. currency topped out in August 1987, and retreated, the sources said.

The Federal Reserve's intervention last Friday was clearly a source of satisfaction for the Bank of Japan and Finance Minister Tatsu Murayama, who quickly proclaimed that the tide had turned in the currency markets, and that "whatever needs to be done whenever necessary" would be done in concert with other monetary authorities.

At the same time, most Tokyo forecasters have now begun revising upward predictions of where the dollar will go from its current level. Many believe it will stay at 140 yen or above at least for the next several months.

Earlier expectations that the U.S. currency would end the year between 115 yen and 120 yen are being

abandoned. While no new view yet prevails, a consensus may form in coming weeks that the dollar-yen rate will drop to a range of 130 yen to 135 yen before the end of the year, currency specialists said.

Euromarts At a Glance

Euromart Yields

U.S. \$ 1 yr & over	June 14	June 7
U.S. \$ 1 yr & over	9.14	9.21
U.S. \$ 1 yr & over	9.21	9.45
U.S. \$ 1 yr & over	9.21	9.45
U.S. \$ 1 yr & over	9.21	9.45
U.S. \$ 1 yr & over	9.21	9.45
U.S. \$ 1 yr & over	9.21	9.45
U.S. \$ 1 yr & over	9.21	9.45
U.S. \$ 1 yr & over	9.21	9.45
U.S. \$ 1 yr & over	9.21	9.45

Source: Euromart Stock Exchange

Weekly Sales

Country	1st Week	2nd Week	3rd Week	4th Week
U.S.	187.10	67.70	2,822.50	728.70
Canada	13.00	94.80	307.00	286.10
France	1,024.70	1,213.70	4,961.00	5,173.30
Germany	2,647.70	1,775.10	6,941.30	1,841.50
Italy	2,647.70	2,548.30	12,191.30	2,842.30

Source: Euromart, Credit

Libor Rates

Country

OTC Consolidated trading for week ended Friday. June 16

OTC Consolidated trading for week ended Friday. June 16

(Continued on next page)

WORLD STOCKS IN REVIEW / Via Agence France-Presse

Amsterdam

Stocks were firm last week despite the sharp decline in the dollar after publication of U.S. trade figures. The CBS all-share index closed Friday at 194.1, against 192.9 a week earlier. Total volume reached 8.5 billion guilders, against 9.5 billion the previous week.

Frankfurt

Stocks consolidated, after setting record highs the previous week. The DAX spot trend indicator lost 10.75 points for the week to close at 1,426.34. The Commerzbank indicator finished at 1,779.8, down 3.8 for the week.

Volume on the eight West German exchanges totalled 27.92 billion Deutsche marks for the week, against 32.74 billion.

Wasserstein Bid for Gateway Is Seen

Reuters
LONDON — A U.S. investment concern, Wasserstein, Perella & Co., will announce on Monday plans to launch a \$2 billion bid for the beleaguered British supermarket group, Gateway Corp., according to reports in British newspapers published Sunday.

The Wasserstein bid, put together to parry a \$1.87 billion (\$2.86 million) bid for Gateway from a group that includes some Gateway officials, depends on Gateway's agreement. If obtained, the formal

Hong Kong

Stocks regained some ground last week after a week of turbulence in China.

The barometer Hang Seng Index finished at 2,342.41 points on Friday, a gain of 74.03 points for the week. The key index had lost 407 points the previous week in the aftermath of the military crackdown on the pro-democracy movement in Beijing.

The broader-based Hong Kong Index closed at 1,546.47 points Friday, a weekly advance of 50.24 points. Average daily turnover shrank sharply to 1.41 billion Hong Kong dollars from 2.11 billion Hong Kong dollars.

London

Shares were irregular, with the

pound's weakness repeatedly triggering renewed worries of a further rise in British interest rates. The Financial Times 100-share index closed at 2,143.9, down 1.8 points from the previous week.

Publication of British inflation figures for May on Friday, showing an annual rate of 8.3 percent, steadied shares after rumors swept the market in the morning that the figure would be higher than the government's estimate of 8.5 percent.

Paris

Paris stocks were on a steady downward last week, after having reached a record closing high of 488.0 on the CAC index the previous week.

The index dropped moderately every day to end at 480.4 on Friday. Analysts attributed the decline to events in China, high dollar values giving rise to inflationary fears, and steady sales by small investors concerned that decontrol of brokerage fees as of July 1 will lead to higher commissions on transactions.

Singapore

The stock exchange made impressive gains, after losing ground the previous week because of turmoil in China.

The Straits Times Industrial Index rose 55.31 points for the week to close at 1,296.52 on Friday. The SES all-share index added 10.58 points to finish at 343.81.

Total volume for the week was 1.06 billion units, down 9.7 percent

Tokyo

Share prices plunged in extremely thin but erratic trading, as the dollar rose past 150 yen on Thursday.

The Nikkei Stock Average closed at 33,055.17 yen Friday, down a hefty 584.81 for the week. The index of all common stocks on the major section added 43.59 points to 2,440.17.

Investors stayed on the sidelines all week, cutting volume to 523.8 million shares, a day from 555.5 million.

The Nikkei suffered the year's steepest one-day setback of 489.90 yen on Thursday as the dollar soared to 151.30 yen.

Zurich

Stocks moved up for the third consecutive week, and operators said they were optimistic that the trend would continue in the short term.

Milan

Stocks rose last week, as the Cori Index finished at 651.72, against 629.93 a week earlier, and the Mediobanca indicator at 294.50, against 283.48.

The exchange's data-processing system could not keep up with growing volume, so that turnover could not be calculated.

Morality Play on the Power of Debt

By Sarah Bartlett
New York Times Service

NEW YORK — The three-cornered takeover frenzy engulfing Time Inc., Warner Communications Inc. and Paramount Communications Inc. is one of the most striking examples to date of the power of debt in corporate America.

No matter which party emerges victorious, two things are fairly certain:

• At least two companies will end up borrowing billions, either to buy the others or to defend themselves from a hostile suitor.

• Some combination of asset sales, work-force reductions and other cutbacks will be needed to dig out from under the debt.

In the latest twist, Time has made a \$14 billion bid for Warner to defend itself from Paramount's \$10.7 billion offer. A Time-Warner company would be a larger and more difficult takeover target to swallow.

To pay for this, Time has arranged up to \$14 billion in bank loans. Thus, the debt load of the combined Time-Warner, now about \$3 billion, would soar to between \$10 billion and \$17 billion, depending on the final terms.

That stands in sharp contrast to the initial Time-Warner merger proposal, which called for the two companies to exchange stock, requiring no new debt. Under the revised proposal, Time-Warner would have to devote a substantial portion of its cash flow over the next few years to interest payments, denting earnings and, at least initially, the stock price.

Some executives and analysts see that as perfectly acceptable. They view this free-for-all as the most effective way of insuring that corporate assets end up in the hands of those who can wring the most out of them, spurred on by the discipline of debt.

Others consider it a disaster. They view the Time-Warner-Paramount imbroglio as a flagrant example of all that is wrong with the corporate takeover era. Conservatively financed mergers are no longer viable, they maintain, because there is so much money around that someone is always

ready and willing to disrupt them.

In any case, the Time-Warner-Paramount struggle is clearly a corporate morality play of the first order. At stake are some of the world's finest media, publishing and entertainment properties, including Time, Life and Fortune magazines, Simon & Schuster and the film studios of Warner and Paramount.

"What we have going on in all of these takeovers is the contrasting of raw capitalism — where people are making decisions based on immediate returns to

They also expected that investors would be willing to accept a lower price for their shares in the near term for the privilege of owning a piece of a company with stronger financial underpinnings.

One adviser to the Time-Warner camp said he advised against the stock-for-stock merger because it would leave the two companies vulnerable to higher bids, but "they felt it made such eminent business sense, that it was such an important transaction, that no one would be foolishly enough to disrupt it."

Take the case of a successful Paramount bid for Time. According to one Wall Street professional, after accounting for interest payments and depreciation, Paramount-Time would have a negative cash flow of \$64 million this year, compared with a positive cash flow of \$1.7 billion if the two companies remained independent.

The combined company would lose \$1.87 a share in 1989, as against expected earnings of \$3.21 a share, this investment banker estimated. A partial breakup of the company would be inevitable.

Those in the Time-Warner camp say the share is that conservatively structured business combinations cannot compete in an age when holders are willing to borrow to the hilt to win over shareholders. In this battle, many of the shareholders are arbitrageurs and others more interested in short-term gains than long-term performance.

Time management is trying to preserve itself in the face of a perceived takeover threat. This school of thought maintains that Time executives initially granted generous terms to Mr. Ross and now are bearing the consequences.

The moral, said one investment banker, is: "Underprice a deal, and you're asking for it." What better evidence for this thesis, than the fact that Paramount could finance its acquisition costs with bank loans rather than with riskier junk bonds.

It contrasts 'raw capitalism with a kinder, gentler capitalism that has some morality beyond the marketplace.'

Peter J. Solomon, banker.

themselves — with a kinder, gentler capitalism that has some morality beyond the marketplace," said Peter J. Solomon, chairman of a New York investment-banking firm bearing his name.

Wall Street is philosophically divided. Many support Steven J. Ross, the Warner chief executive, and his fellow top executives at Time, J. Richard Munro and Nicholas J. Nicholas Jr.

The three have complained that the surprise bid for Time from Paramount, until recently Gulf & Western Inc., stymied their efforts to create a rare entity: a corporate powerhouse without the heavy debt that usually comes with mergers and with the flexibility to seek new growth opportunities around the globe.

In the view of Time and Warner executives, had the original proposal prevailed, the stock of their combined companies would have been worth far more in 10 years than the stock of a company suffering the drag of a huge debt.

Robins Revamping Approved

Compiled by Our Staff From Dispatches

RICHMOND, Virginia — A federal court has upheld A.H. Robins Co.'s reorganization plan, including creation of a \$2.47 billion fund for women who claim to have been injured by the Dalkon shield contraceptive device, but the company said it could still be months before it emerges from bankruptcy.

The 4th U.S. Circuit Court of Appeals on Friday upheld all parts of the long-awaited restructuring of Robins, which will become a subsidiary of New York-based American Home Products Corp. in a \$700 million stock swap.

A Robins spokesman said the company's reorganization could still be further delayed by appeals to the U.S. Supreme Court.

"We are pleased that the Fourth Circuit has affirmed our plan of reorganization," the spokesman, Roscoe Buckner Jr., said. "The matter is still open to the possibility of further appeals, and it may be up to 90 days before we know if there are appeals."

Robins, a Richmond-based pharmaceutical manufacturer, sought Chapter 11 federal bankruptcy protection from creditors in August 1985.

The company faced millions of dollars in damage claims from women who said they suffered injuries including infections, sterility, miscarriage and having children born with birth defects caused by the Dalkon shield intrauterine device.

Robins sold about 4.5 million Dalkon shields in the United States and abroad before taking the device off the market in 1974. Robins paid about \$20 million to settle 9,400 of some 15,000 Dalkon lawsuits before seeking bankruptcy protection.

Alan B. Morrison, attorney for the Public Citizen Litigation Group in Washington, led lawyer for opponents of the reorganization plan, said no decision had been made whether to appeal to the U.S. Supreme Court.

In a series of four unanimous opinions, a three-judge panel of the appeals court upheld the entire scope of Robins's reorganization.

(Reuters, AP, UPI)

NASDAQ National Market

OTC Consolidated trading for week ended Friday.

(Continued)

(Continued)							
Stearns	36.5	5	1419 1214	32	1324	-114	+
Stearns	1.00	3	1419 1214	32	1324	-114	+
Stearns	36.5	5	1419 1214	32	1324	-114	+
Stearns	1.00	3	1419 1214	32	1324	-114	+
Stearns	36.5	5	1419 1214	32	1324	-114	+
Stearns	1.00	3	1419 1214	32	1324	-114	+
Stearns	36.5	5	1419 1214	32	1324	-114	+
Stearns	1.00	3	1419 1214	32	1324	-114	+
Stearns	36.5	5	1419 1214	32	1324	-114	+
Stearns	1.00	3	1419 1214	32	1324	-114	+
Stearns	36.5	5	1419 1214	32	1324	-114	+
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MONDAY SPORTS

Phillies Hold Off the Mets, 6-5

Home Run by Hayes in Bottom of Ninth Seals the Victory

The Associated Press
 Von Hayes led off the bottom of the ninth inning Sunday with his 13th home run this season as the Philadelphia Phillies ended a four-game losing streak by defeating the New York Mets, 6-5, in a National League game.

SUNDAY BASEBALL

New York Mets, 6-5, in a National League game.

Hayes' winning home run came on a 1-2 pitch from Randy Myers.

New York led the score at 5-5 in the eighth after Howard Johnson's single finished reliever Don Carman. Johnson stole second, advanced on a groundout and scored on a wild pitch by Jeff Parrett.

The Phillies scored four times in the first against Ron Darling.

The Mets got a run in the second on back-to-back doubles by Mookie Wilson and Mackey Sasser off Ken Howell.

In the bottom of the second, Tom Herr walked and scored on John Kruk's triple.

Johnson hit his 16th home run in the third, and Dave Magadan hit his third home run in the Mets' sixth.

Cabe 5, Expos 4: In Montreal, Andre Dawson again wrecked his former club, hitting a three-run homer that sent Chicago over Montreal in the battle for first place in the National League East.

Dawson's homer was a towering drive to center field off loser Mark Langston, and followed a single by Jerome Walton and a walk to Ryno Sandberg. The Cubs made it 4-0 in the second.

Pirates 12, Cardinals 4: In St. Louis, Gary Rodin hit a three-run homer and Jose Lind drove in three runs to power Pittsburgh.

Rangers 5, Yankees 2: In an American League game in New York, Ruben Sierra drove in three runs and knuckled Charlie Hough won as Texas averted a four-game sweep.

Sierra had an RBI single in the first inning and a two-run single in the third.

Indians 4, Royals 1: In Cleveland, Mark Salas hit a tie-breaking two-run homer in the sixth for Cleveland and Greg Swindell won his fifth straight game.

Angels 3, Tigers 1: In Detroit, Mike Witt allowed six hits in seven innings to break a four-game losing streak and send Detroit to a 25-41 record, their worst in 13 years.

Orioles 4, Athletics 2: Dave Schmidt and rookie Mickey Vernon combined on a four-hitter as Baltimore won its third straight in a four-game series at home. Bob Melvin hit a three-run double in the first and an RBI single in the seventh.

Mariners 8, Blue Jays 2: In Toronto, Jay Bulmer of Seattle lined a two-run triple to center field and Ken Griffey Jr. singled home Bulmer for a 3-0 lead in the first.

Red Sox 7, White Sox 4: In Chicago, Luis Rivera had four singles and Joe Price picked up his first American League victory. Five of Boston's seven runs off Steve Rosenberg were unearned.

Twins 8, Brewers 6: In Minneapolis, Gary Gaetti's second home run of the game, a two-run shot in the ninth, lifted Minnesota. The Twins let slip a 6-3 lead in the top of the inning.

Rookie Lifts Yankees To Break-Even Point

Compiled by Our Staff From Dispatches

Rookie Dave Eiland finally gave the New York Yankees something that their veteran pitching staff could not produce — a 500 record.

Promoted from the minors earlier in the day, Eiland got his first

the ninth. Tony Fernandez had singled to left field to tie the score.

Red Sox 6, White Sox 1: In Chicago, Dwight Gooden had a grand slam and Nick Esasky hit a two-run homer to lead Boston.

Indians 4, Royals 3: In Cleveland, Kansas City jumped to an early lead, but the Indians came back to win it. Joe Carter homered for Cleveland.

Braves 2, Dodgers 1: In a National League game in Los Angeles, Dion James hit his first home run of the season, off Mike Morgan of Los Angeles, and Pete Smith and two relievers combined on a seven-hitter for Atlanta.

Padres 2, Astros 1: In San Diego, Jack Clark greeted Houston reliever Danny Darwin with a two-run homer in the eighth. Houston starter Jim Deshaies had entered the inning with a five-hit shutout, but allowed a single to Tony Gwynn.

Cubs 3, Expos 2: In Montreal, Rick Sutcliffe gave up six hits in 7 1/2 innings and hit a sacrifice bunt that set up the winning run in Philadelphia.

Mets 1, Phillies 0: In Philadelphia, Bob Ojeda pitched a three-hitter and Kevin McReynolds doubled home the only run of the game with two outs in the first inning.

Giants 8, Reds 1: In San Francisco, Kevin Mitchell and Brett Butler hit home runs to back a six-hitter by Dennis Cook.

Pirates 7, Cardinals 2: In St. Louis, Jeff Robinson won for the first time as a starter in almost five years, allowing one run and four hits in five innings. He was backed by Barry Bonds and Jose Lind, who each scored twice. (AP, UPI)

SATURDAY BASEBALL

major-league victory with seven effective innings Saturday night in New York as the Yankees beat the Texas Rangers, 5-3.

The Yankees have a record of 33 victories and 33 losses — bringing them to the break-even point for the first time since the second game of the season and putting them in second place in the American League East, four games behind the Baltimore Orioles.

Steve Sax got three hits, including a two-run single that broke a 3-3 tie in the sixth.

Twins 7, Brewers 3: In Minneapolis, Don Gladden's RBI single in the eighth ignited a four-run rally that broke a 3-3 tie.

Orioles 4, Athletics 2: In Baltimore, Phil Bradley's pop-fly, two-run double in the fourth capped a three-run rally for Baltimore.

Angels 6, Tigers 3: Rookie Jim Abbott fulfilled a dream of pitching and winning in Tiger Stadium, giving up nine hits in seven innings. A solo home run by Clemens Washington sparked a three-run third.

Blue Jays 3, Mariners 2: In Toronto, Kelly Graber singled home Nelson Lirio from second base to cap a two-run Toronto rally in



Left to right, Doog Weaver, Jerry Pate, Nick Price and Mark Wiebe and their four trophies.

The Odds Were 332,000 to 1

By Dave Anderson
 New York Times Service

PITTSFORD, N.Y. — Near the sixth hole at Oak Hill Country Club, not far from the blue forget-me-nots in the muddy creek in front of the green, a historical marker reads: "Deconville with army of 3,000 French and Indians crossed these grounds twice in July, 1687."

Now another historical marker should be placed there.

"Doog Weaver, Mark Wiebe, Jerry Pate and Nick Price," it should read, "each had a hole-in-one here within two hours in the second round of the United States Open on June 16, 1989."

Nothing like this has ever happened before in tournament golf. And chances are it won't happen again. According to Golf Digest magazine, the odds on any four golfers making the same hole on the same day are 332,000 to 1.

On the PGA Tour, the magazine calculated the odds of a hole-in-one by a touring pro in a single round at 3,708 to 1.

But not even a Las Vegas oddsmaker could come up with credible odds on four golfers using the same club, a 7-iron, to make a hole-in-one at the

same hole in the U.S. Open within two hours.

In the 88 previous Opens, only 17 known cases occurred. The most at any previous Open was three in 1982 at the Pebble Beach course in California, by Johnny Miller, Tom Weiskopf and Bill Brodell.

Not that the sixth hole at Oak Hill has an easy reputation. Arnold Palmer had a 7 there in 1984. And on Friday, Bernhard Langer had a double-bogey and Jack Nicklaus a bogey.

With so much recent rain, the greens at Oak Hill are softer than the United States Golf Association would like. This was one reason balls were spinning back so well.

And the cup was cut below a crater, creating what Pate described as "not really a crater" but a slope from right to left.

Each of the four players donated their hole-in-one ball to Golf House, the USGA museum in Far Hills, New Jersey.

Weaver now has six aces in his career, Wiebe three, Pate eight and Price three.

"It was just one of those fluky deals," Wiebe said.

Said John Morris of the USGA: "There won't be any more holes-in-one there. We're planting a tree."

Lendl and McEnroe Win on Grass

Compiled by Our Staff From Dispatches

LONDON — Ivan Lendl won the first grass-court title of his career on Sunday when he overcame Christo van Rensburg of South Africa, 4-6, 6-3, 6-4, in the final of the Queen's Club tennis tournament.

Lendl, the top-ranked player in the world, had to work hard for the title. The tournament is considered a warm-up for Wimbledon, which starts June 26.

"I felt it was an uphill battle today," Lendl said after one hour, 55 minutes on the court. "When it was looking like I could run away with it he hit some unbelievable shots again but his serve let him down in the end."

In Edinburgh, in another Wimbledon warm-up, John McEnroe defeated Jimmy Connors, 7-6, 7-6, in Sunday's final of the Scottish Grass Court championships.

Both McEnroe and Connors served accurately and McEnroe dropped only eight service points in the opening set. A couple of unforced errors by Connors let McEnroe take the tiebreaker, 7-2, and the second set followed a similar pattern with no breaks in serve. McEnroe again had the edge in the tiebreaker, which he won 7-4.

Against Lendl, eighth-seeded Van Rensburg, a grass-court specialist who is ranked 35th in the world, saved one match point at 5-3 in the third set. But the Czech,

helped by an ace, reached 40-15 in the next game and the South African then put a backhand out.

Van Rensburg started in superb fashion, breaking Lendl's opening serve and holding his own first service to love before his opponent could settle into his stride.

Though Lendl broke him to level at 4-4 Van Rensburg used his accurate

rate service returns and passing shots to break straight back and then held serve to win the set.

In the final on Sunday of a women's grass-court tournament in Edgbaston, England, Martina Navratilova won 12 consecutive points in the middle of the second set to defeat Zina Garrison, 7-6, 6-3.

(Reuters, UPI, AP)

Nordiques Make Swede No. 1 Pick in NHL Draft

United Press International

BLOOMINGTON, Minnesota — Mats Sundin of Sweden became the first European selected first in the National Hockey League amateur draft when he was picked Saturday by the Quebec Nordiques, who may have to wait two years for his arrival.

"He's big and strong and physical, a great skater," said Gauthier. "We think he is a franchise player. There was no question that he was the best player available in this year's draft."

Sundin, of Sollefteå, is 6 feet 3 1/2 inches (1.9 meters) tall and weighs 185 pounds (84 kilograms). A military commitment will likely tie him up until the fall of 1991.

"It is a great honor to be picked first," said Sundin, 18, who played for Nacka in the Swedish first division last year. He scored 10 goals and 8 assists in 25 games, modest numbers for a No. 1 NHL pick.

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Kite Overtakes Strange to Lead Rainy U.S. Open

By Gordon S. White Jr.
 New York Times Service

PITTSFORD, N.Y. — Tom Kite ran in four straight birdies Saturday as he passed the defending champion, Curtis Strange, then scrambled for some key saves to finish with a one-stroke lead after the third round of the 89th U.S. Open.

The 39-year-old Texan they call Mr. Consistency has done about everything but win a major championship in his 18 years on PGA Tour.

He has two victories this year and a dozen in his career, but has never won the U.S. Open, the British Open, the Masters or the PGA Championship.

Heavy rain overnight delayed the start of play until early afternoon, but Kite and Strange continued to hammer play.

Kite, using a new cross-handed putting grip, overtook Strange, the leader after the second round, during a streak of birdies on holes 9 through 12.

He then fought his way out of trees and bunkers on later holes to retain a narrow edge over Scott Simpson, who won the Open two years ago.

Strange, seeking to be first player to successfully defend the title in 88 years, fell three shots back of Kite and two behind Simpson.

Kite finished with one-under-par 69 and a 54-hole total of five-under 205. Simpson also had a 69 for a total of 206.

Strange had a 73, his highest Open score in 11 rounds of this championship dating back to the second round of the 1986 event. His three-round total was a two-under 208.

On the 10th hole, Blake made a 30-foot birdie to go to four under for the tournament.

Moments later, with the rain coming down hard, Kite rolled in a long birdie putt from the fringe of the 10th and also went four under par.

Strange had a par on the hole and fell out of the lead.

Well before the rain began, Seve Ballesteros of Spain finished his round with a six-over 76 for an 11-under total of 221.

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